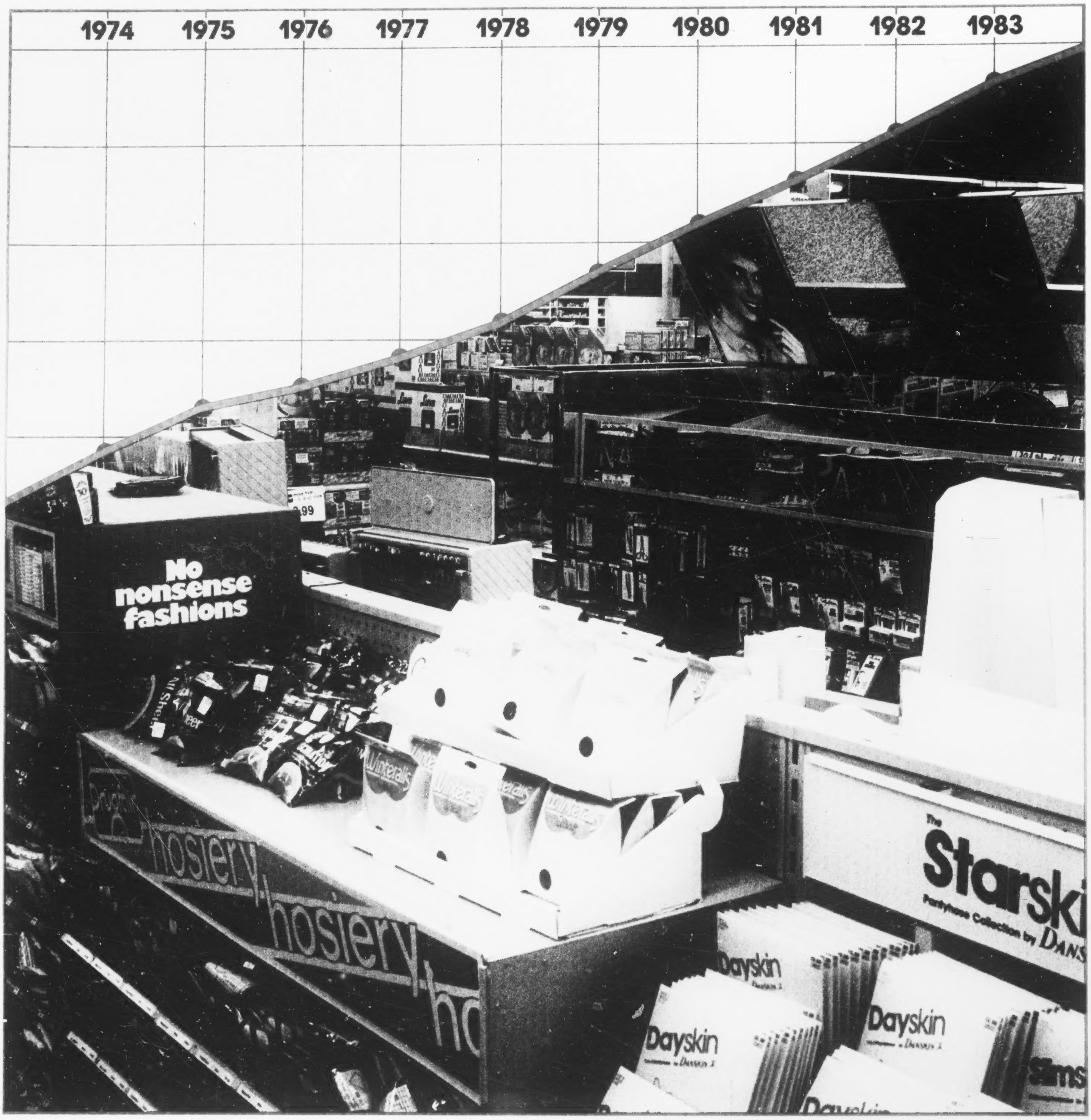
DRUG STORE NEWS

1984 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY



'83 chain drug sales jump 11%

For the chain drug industry, the past year has been one in which many of the promises of 1982 were fulfilled.

The previous year, chains had been tested by the faltering economy, but they had emerged in good shape, leaner and tougher. And the lessons learned in a tight economy carried over.

As the economy mended and inflation remained quiescent, consumer confidence rebounded, and drug chains were among the beneficiaries, with sales rising 11% to $22.8 billion and profit growth running even higher.

The record profits earned by chain after chain were partly the result of lowered inflation, which cut LIFO charges, partly of lower interest rates and partly of the leaner operating styles adopted in 1982.

Apart from the record operating results, the past year was marked by a number of trends and highlights. Among them:

—The reawakening of aggressive growth strategies that characterized earlier years. Chains that had pulled back on the reins, began to loosen them once again as increases in interest rates and building costs slackened and shopping center developers began to return to action. Revco, for example, appears likely to meet its current-year goal of 110 to 120 new stores after a year in which the world's largest drug chain was able to achieve only half of its objective of 10% growth in retail footage.

—With more cash to invest, chains branched out aggressively into other businesses—both retail and nonretail. Drug chains had long hedged their retail drug bets with side wagers on other types of ventures. But there was a flurry of diversification activity this past year that made other years seem tame by comparison.

—On the acquisition front, chains remained subdued for much of the year, preferring instead to concentrate on strengthening their share of existing markets with small buys and new store openings.

But the new year brought a block-

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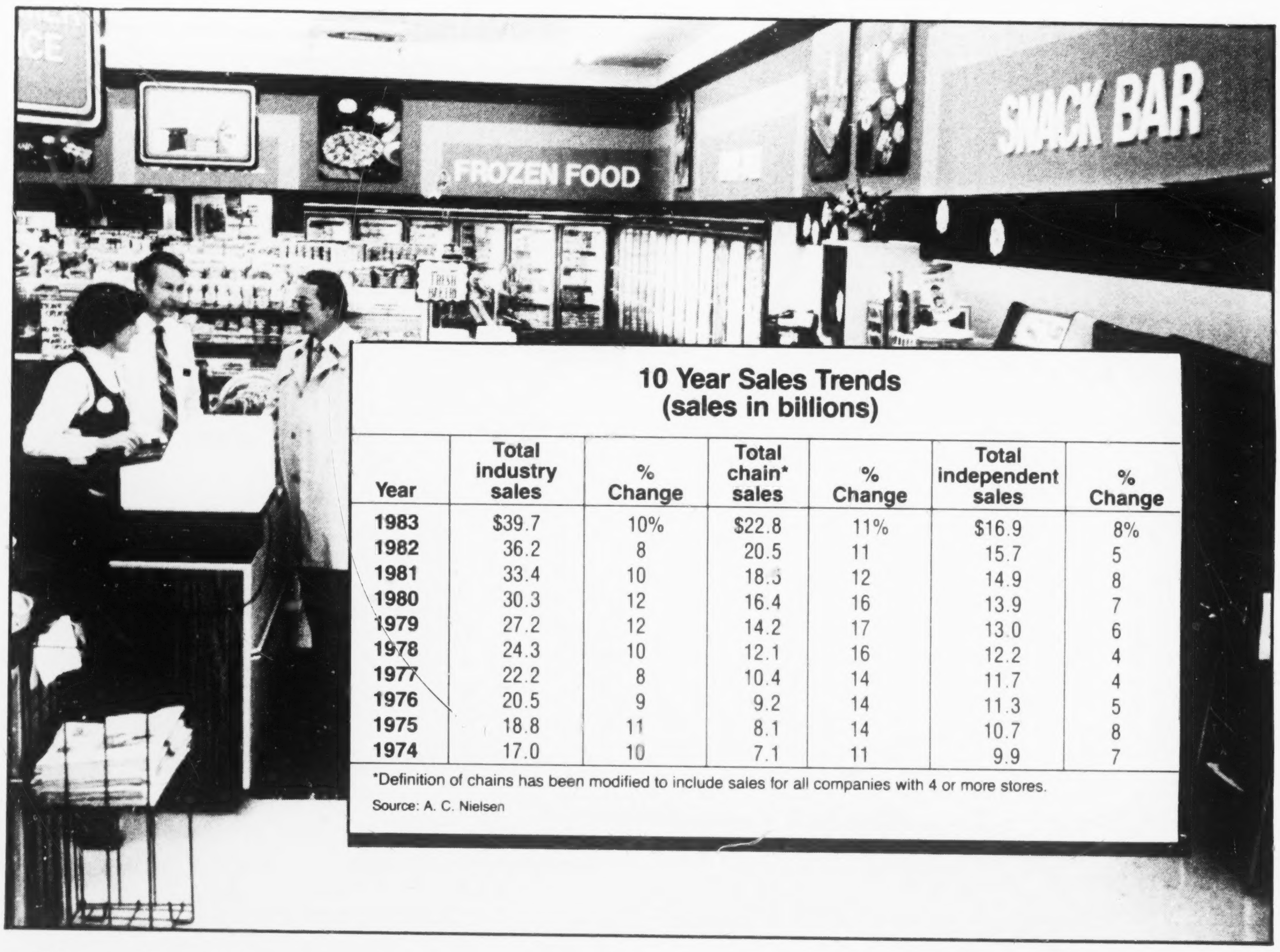
buster: Imasco Ltd., parent company of Shoppers Drug Mart, Canada's largest drug chain, made a $320 million offer to purchase Peoples Drug Stores, the 11th largest American drug chain. It was the largest acquisition ever in the chain drug industry, and Peoples became the first major American chain to be purchased by a foreign company.

The deal was a good one for both companies. Imasco got a well-managed and expansion-minded drug chain, and Peoples would get access to additional resources for its growth objectives.

—Technology assumed an even greater part in chain operations. The pharmacy computer, with its power to improve productivity and enhance the pharmacist's role as a health care specialist, made its way into more and more prescription departments . Virtually every major uncommitted chain finally made the decision to go chainwide, following several years of careful testing.

Many chains also began tests of checkout scanning as the cost of the equipment came down and the percentage of UPC-coded items increased. For the drug chains, higher throughput at the checkout counter was far less important than the chance to improve accuracy and swiftness of price updates, get a better handle on item movement and strengthen inventory control. In this, the role of the MIS executive became even more crucial.

—The year brought other highlights, which are detailed in the pages that follow. They included: Eckerd's return to strong profit growth after two years of flat earnings; Walgreens' decision to renew its attack on the New York City market and Pay 'n Save's acquisition of a wholesale company—Northwestern Drug—and the controversy that ensued.



10 Year Sales Trends (sales in billions)

Year	Total industry sales	% Change	Total chain* sales	% Change	Total independent sales	% Change
1983	$39.7	10%	$22.8	11%	$16.9	8%
1982	36.2	8	20.5	11	15.7	5
1981	33.4	10	18.5	12	14.9	8
1980	30.3	12	16.4	16	13.9	7
1979	27.2	12	14.2	17	13.0	6
1978	24.3	10	12.1	16	12.2	4
1977	22.2	8	10.4	14	11.7	4
1976	20.5	9	9.2	14	11.3	5
1975	18.8	11	8.1	14	10.7	8
1974	17.0	10	7.1	11	9.9	7

*Definition of chains has been modified to include sales for all companies with 4 or more stores.

Source: A. C. Nielsen

Diversification trend goes into high gear

Almost every week, it seemed, another chain drug company was announcing its plunge into a new type of business.

Smiles, Heaven, A. L. Price, Schuck's, Get It For Less, Ike's, ADAP, Carport: These were just a few of the unfamiliar names that flowed through the news pages during the year.

Behind the headlines was a familiar story: Drug chains were sailing into uncharted waters as a way to direct substantial cash flow into profitable sidelines and at the same time to spread the risk, like good portfolio managers.

The heaviest play was in areas akin to their main line of business, like deep-discount drug and health and beauty aids stores or home health care centers.

But there were other areas poles apart from the drug store industry that chains entered aggressively. Auto parts retailing was a prime example.

Taking a cue from companies such as Perry, Dart, Thrifty and Malone & Hyde, other chains including Rite

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10-Year Sales Share Trends

Year	Total sales (billions)	Chain* share	Independents share
1983	$39.7	58%	42%
1982	36.2	57	43
1981	33.4	55	45
1980	30.3	54	46
1979	27.2	52	48
1978	24.3	50	50
1977	22.5	47	53
1976	20.5	45	55
1975	19.2	45	55
1974	17.5	44	56

*Definition of chains has been modified to include companies with 4 or more stores.

Source: A. C. Nielsen

PRESCRIPTIONS
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Aid and Pay 'n Save acquired automotive chains and made ready to expand them with their substantial resources.

The reason was simple: Auto parts retailing offers net profits in the 4% to 6% range, higher than what the average drug chain generates. Also, the boom in do-it-yourself auto repairs has steadily risen with the price of new cars. Moreover, it's a hard parts business that requires few markdowns.

While deep discounting, home health and auto parts were the main events, there was other action taking place in smaller arenas.

Rite Aid, which the year before had moved into the retail toy business with the purchase of the 128-store Circus World chain, acquired the rights to another retailing concept called Heaven. Started in California, it featured a mix consisting of designer sweat shirts and T-shirts, sophisticated greeting cards and other paper products and nostalgia records.

Rite Aid quickly launched several 3,000-sq.-ft. Heaven stores in the East, and made plans to open more. By early 1984, there were seven Heaven outlets, and Rite Aid was planning 10 to 15 more this year and an even greater number in 1985.

If Heaven was an intriguing name, it was matched by Peoples' new concept in specialty retailing—Smiles. These small (3,000-sq.-ft.) stores, which made their debut in Ohio, carry an assortment of greeting cards, gifts and high-quality bulk and bagged candy. Peoples plans to watch its experiment for a full year before deciding whether to expand.

Perhaps the most active chain in the diversification arena during the past year was a company that had long been one of the diversification leaders—Pay 'n Save.

The Seattle-based chain of drug stores, home centers, apparel outlets and sporting goods stores added three more areas to the list: wholesaling, auto parts retailing and a warehouse-style, membership only outlet called Price Savers Wholesale Club.

Price Savers was announced first. Pay 'n Save targeted Salt Lake City for its first venture into the growing price club phenomenon. These are huge (100,000-sq.-ft.) no-frills, cash-and-carry outlets catering to small businesses and members of organizations, who can realize substantial savings on a wide variety of merchandise by joining the club.

The outlets operate on margins of 10% to 11% and generate high turnover and tremendous volume. The breakeven point is said to be $25 million a year, and projections are that the outlet will eventually do $50 million.

Two more Price Savers have been slated, one in Fife, Wash., and the other in Seattle. Next year, units will be launched in Honolulu and Anchorage, Alaska.

Then, early this year, Pay 'n Save purchased Schuck's, a 58-store auto parts chain. Pay 'n Save paid $70 million to acquire the stores and an 85,000-sq.-ft. warehouse.

But neither Price Savers nor Schuck's stirred as much interest as Pay 'n Save's third diversification move.

In February, the nation's 13th largest drug chain acquired one of the leading wholesale companies in the Pacific Northwest, Northwestern Drug, for $3 million to $4 million.

The acquisition added about $130 million to Pay 'n Save sales, but it brought some problems too. One problem stemmed from the refusal of many pharmaceutical manufacturers to sell direct to retailers or retail-owned wholesalers.

In the wake of the sale, three suppliers—Smith Kline & French, Eli Lilly and Sandoz—announced that, in keeping with their policy, they

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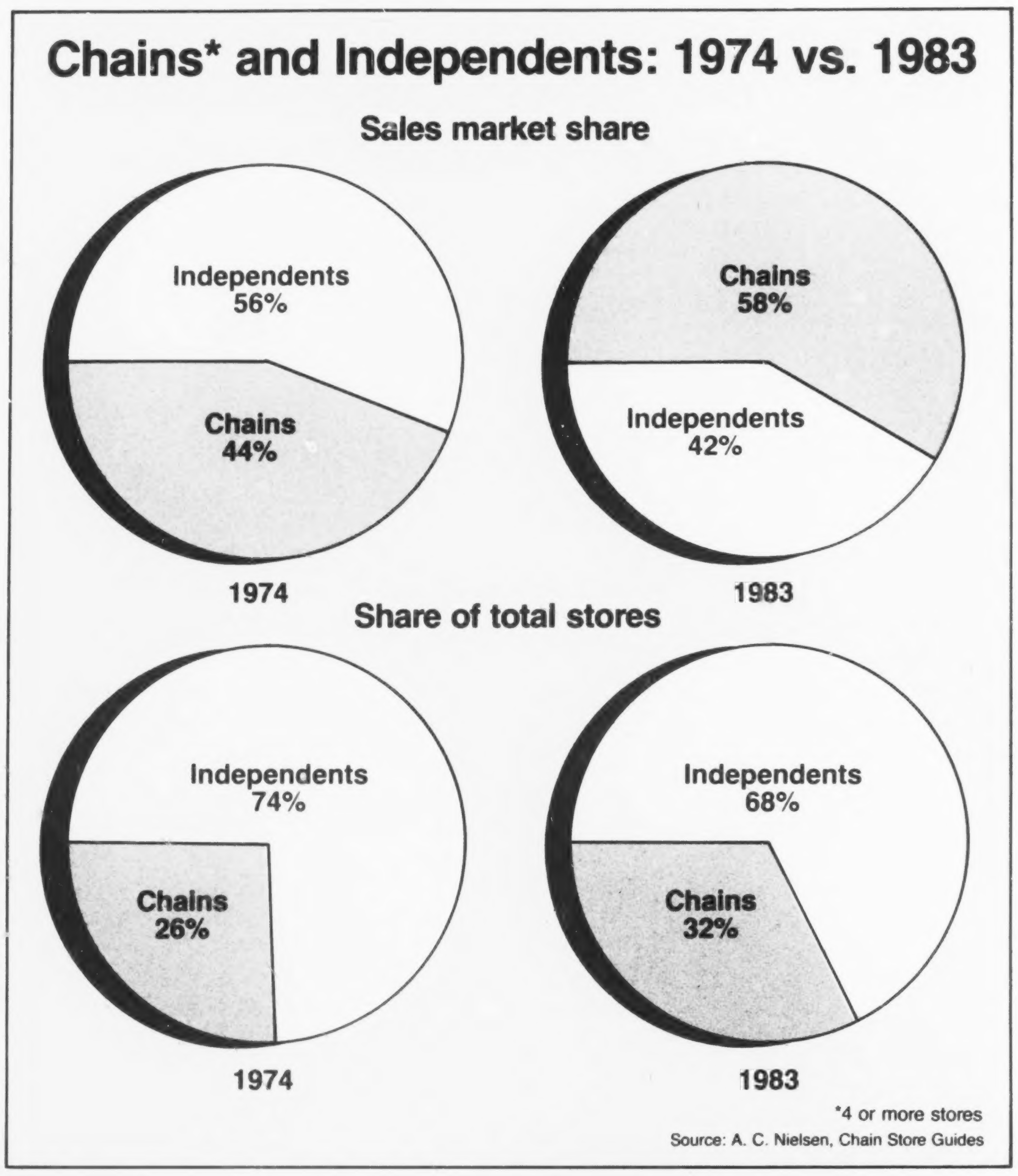

Chains* and Independents: 1974 vs. 1983

*4 or more stores

Source: A. C. Nielsen, Chain Store Guides

10-Year drug store growth trend

Year	Total drug/ proprietary stores	Total chain** stores	Total independent stores
1983	49,500*	15,969	33,531*
1982	49,400*	16,347	33,053*
1981	49,310	14,664	34,646
1980	49,192	14,815	34,377
1979	48,822	15,110	33,712
1978	49,151	14,709	34,442
1977	49,397	14,530	34,867
1976	50,719	13,918	36,721
1975	50,200	13,705	26,495
1974	50,600	13,034	37,566

**Chain is defined as 4 stores or more
*Based on *Drug Store News* projections
Source: A. C. Nielsen, Chain Store Guides

Pharmacy
Lighting Center
GARFIELD Gift Wrap
3.99

Prescriptions

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would no longer sell to Northwestern. But other companies with similar policies failed to follow suit.

The other problem was potentially more devastating: The loss of retail accounts who feared that a competitor, Pay 'n Save, might receive preferential pricing treatment from its wholesale subsidiary or that their confidential data might be leaked to the parent. But while there were a few defections, Northwestern appeared to staunch the flow by promising nondiscriminatory pricing for all customers and complete confidentiality of customer records.

Perry Drug was another chain that moved aggressively into areas outside its traditional drug store business. The chain launched an auto parts business called Auto Works and then opened its first deep-discount outlet called A. L. Price.

With cash from profits including the sale of leased pharmacy departments in discount stores, Perry then acquired Fleenor's, a 50-store chain of auto parts outlets in Indiana, Kentucky and Ohio.

More recently, Perry launched an effort to tap into the huge medical lab services market with its purchase of Bioanalytical Procedures, a laboratory serving doctors, hospitals and nursing homes, with $2 million in sales and pretax profits in the 11% range.

Technology fuels a chain reaction

If it wasn't technological *fever* that gripped the chain drug industry in 1983, it was at least an elevated temperature.

In pharmacies, in distribution centers and at checkout counters, chains installed computerized systems designed to automate people tasks and thereby increase productivity.

While the introduction of pharmacy computer systems and warehouse automation was not exactly a new story, the trend intensified during the year. (See pages 59 and 66.)

But it was the testing of new POS systems—with and without scanning—that excited the imagination of chain drug retailers. With the price of POS systems coming within reach and with the option of using even less expensive hand-held devices, chains were suddenly facing the possibility that they might be able to employ technology that revolutionized the supermarket industry. The increase in the number of bar-coded drug store products was also a big factor in the new trend.

The allure of scanning was its power to capture information beyond the grasp of ordinary checkout systems: How well do individual items move? What are the hot products, the dogs? What effect do ad-

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Top 50 Drug Chains: 1983 Dollar Volume

Rank Chain	Headquarters	Drug store sales for the latest fiscal year (millions)	Fiscal year ended	% change	Store totals	% change
1. **Walgreens**	Deerfield, Ill.	$2,238	8/31/83	16	941	7.00
2. **Eckerd**	Clearwater, Fla.	2,006	7/27/83	11	1,371	9.00
3. **American* Stores drug store division**	Salt Lake City	1,900^{e}	1/29/84	7	397	4.00
4. **Jewel Cos.** Drug store division**	Oak Brook, Ill.	1,850	1/28/84	4	498	6.00
5. **Revco**	Twinsburg, Ohio	1,792	12/31/83	15	1,661	4.00
6. **Shoppers Drug Mart**	Toronto	1,274	3/31/83	15	434	0.05
7. **Rite Aid**	Shiremanstown, Pa.	1,093	3/3/84	13	1,128	6.00
8. **Longs**	Walnut Creek, Calif.	1,210	1/31/84	8	178	3.00
9. **Thrifty**	Los Angeles	1,187	8/31/83	5	537	0.07
10. **Pay Less NW**	Wilsonville, Ore.	853	1/31/84	9	149	1.00
11. **People's**	Alexandria, Va.	791	9/24/83	15	575	4.00
12. **SupeRx**	Cincinnati	790	1/31/84	10	606	7.00
13. **Pay 'n Save**	Seattle	756^{e}	1/29/84	17	143	−2.00
14. **CVS**	Woonsocket, Ohio	734	12/31/83	19	513	10.00
15. **Thrift**	Pittsburg, Pa.	588	1/28/84	9	363	3.00
16. **Gray Drug Fair**	Cleveland	578	12/31/83	7	402	6.00
17. **Hook**	Indianapolis	320	12/31/83	12	282	8.00
18. **Fay's**	Liverpool, N.Y.	312	1/31/84	16	100	9.00
19. **Adams**	Pawtucket, R.I.	302	12/31/83	6	425	−5.00
20. **K&B**	New Orleans	300^{e}	12/31/83	13	125	9.00
21. **Pharm-Escomptes Jean Coutu**	Longueuil, Quebec	300	6/1/83	20	70	17.00
22. **Boots**	Toronto	250^{e}	12/31/83	10	183	5.00
23. **Perry*****	Pontiac, Mich.	245	10/31/83	14	116	6.00
24. **Dart**	Landover, Md.	210	1/31/84	9	72	4.00
25. **Genovese**	Melville, N.Y.	194	2/1/84	22	72	9.00
26. **Medicine Shoppe**	St. Louis	143	9/30/83	32	420	14.00
27. **Medi Mart**	Quincy, Mass.	120^{e}	1/28/84	10	54	8.00
28. **Big "B"**	Birmingham, Ala.	117	1/30/84	34	94	15.00
29. **Snyder******	Minnetonka, Minn.	100^{e}	1/31/84	10	55	2.00
30. **Big "V"**	London, Ont., Canada	105	9/30/83	21	67	6.00
31. **Duane Reade**	Long Island City, N.Y.	102	10/31/83	15	21	5.00
32. **Carls**	Rome, N.Y.	80^{e}	12/1/83	4	36	3.00
33. **A. D. Clark**	Los Angeles	72^{e}	12/31/83	20	18	6.00
34. **Medicare-Glaser**	St. Louis	70	3/31/83	21	100	−0.09
35. **Arbor**	Troy, Mich.	70	7/31/83	17	35	25.00
36. **Cumberland**	Montreal	70^{e}	12/31/83	40	18	50.00
37. **Kent Drug**	Mississauga, Ont., Canada	67^{e}	12/31/83	34	69	33.00
38. **Discount Drug Mart**	Medina, Ohio	65^{e}	3/31/83	18	17	21.00
39. **Kerr**	Raleigh, N.C.	64^{e}	6/30/83	18	42	24.00
40. **La Verdiere's**	Winslow, Me.	59^{e}	12/31/83	7	55	6.00
41. **Standard**	Richmond, Va.	58^{e}	3/31/83	6	57	6.00
42. **Pathmark***** Drug store division**	Edison, N.J.	55^{e}	10/29/83	5	17	0.00
43. **White Drug**	Jamestown, N.D.	55	3/31/83	6	43	16.00
44. **Super X Drugs**	Downsview, Ont., Canada	54	6/30/83	10	59	4.00
45. **Taylor Drugs**	Louisville, Ky.	53^{e}	9/30/83	4	47	0.00
46. **Pharmacity**	North Billerica, Mass.	49^{e}	12/31/83	2	22	11.00
47. **Begley drug**	Richmond, Ky.	46^{e}	3/31/83	7	46	0.00
48. **Ribordy**	Valparaiso, Ind.	44^{e}	12/31/83	8	25	9.00
49. **Community Distributors**	Somerville, N.J.	44	7/28/83	7	22	10.00
50. **Kinney drug**	Gouverneur, N.Y.	40	12/31/83	5	25	9.00

*American Stores drug division includes 190 Skaggs drug stores, 70 Skaggs/Alpha Beta combination stores and 137 Rea & Derick drug stores.

**Jewel's drug division includes 202 Osco drug stores, 120 Jewel/Osco combo stores and 176 Sav-On stores.

***Includes 69 auto/drug combination stores and 47 conventional Perry drug stores.

****Just includes sales for Snyder's company owned retail drug store outlets.

*****Includes sales just for Pathmark's 17 freestanding drug stores.

Source: *Drug Store News* survey

prescriptions

How the chain drug industry has changed

(1983 vs. 1974)

	'83	'74	% Change
# of 2-3 store companies	1,409	2,303	39
# of stores run by 2-3 store companies	3,234	5,158	37
# of 4-9 store companies	384	496	23
# of stores run by 4-9 store companies	1,991	2,525	21
# of 10 or more store companies	138	172	20
# of stores operated by 10 or more store co.'s	13,978	10,509	33
# of total chain co.'s (4 stores and more)	522	668	22
# of total stores operated by chains of 4 or more stores	15,969	13,034	23

Source: Chain Store Guides

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vertising and promotion have, in exact terms?

In 1983 the headlines began to tell the story:

- Giant installed scanners in its first freestanding drug store in Bethesda, Md.
- Revco introduced scanners in its first deep-discount store, Get It For Less, in Memphis.
- Eckerd, which already had a programmable nonscanning POS system in place in 100 stores, was now preparing to test the addition of scanning.
- Rite Aid joined the trend with three test stores in the East. The Shiremanstown, Pa.-based chain planned to follow the lead of supermarkets and gradually eliminate item price-marking.
- Pay 'n Save tested a system for three months and was ready to roll it out.
- SupeRx, Medi Mart and Drug Fair of New Jersey were also poised to launch limited scanning tests.

An industry first

The first company to introduce scanning into a freestanding drug store was not a drug chain at all. Giant Food Inc., the Landover, Md.-based food/drug combo operator, opened the country's first freestanding drug store equipped with state-of-the-art laser scanners in Bethesda.

Giant's plunge began a trend that would continue throughout the year: Many of the chains that announced scanning plans were associated with parent companies that had prior experience through their food operations. These included Sav-On, Osco, Pathmark, SupeRx and Medi Mart.

In the Giant store, there were six scanners altogether, four at the checkout counters up front and one each at the pharmacy and cosmetics counters.

At the annual meeting of the Jack Eckerd Corp. in November, chairman and president Stewart Turley told shareholders that the drug chain was about to launch a limited scanning test, designed to find out if the laser devices could increase productivity.

Turley set forth one of the reasons that scanning had suddenly become attractive: "UPC and bar coding now amounts to 60% of the merchandise and 80% of the transactions in drug stores. It's getting close to the point where scanning will be more feasible."

At the outset, Eckerd planned to test in two or three stores.

Revco, which introduced scanning technology into its deep-discount Get It For Less store, was now prepared to try a limited test in several drug stores.

But Scott Leeseberg, the chain's vp for management information, sounded a cautionary note: "This is not something we're going to jump into full tilt. We'll begin with a two- or three-store test of both hand-held and slot scanners, probably in stores that are close to headquarters." The proximity to headquarters would allow the chain's top executives to monitor the test closely.

At the same time, the Twinsburg, Ohio-based chain placed a $6 million order for up to 2,000 more programmable POS terminals, upgradable to scanning.

At SupeRx, plans were also under way for a scanning test. Jerry Thole, vp for operations at the Cincinnati-based drug chain, told *Drug Store News* that the one- to three-store test would begin sometime in 1984.

"The main thing we're interested in at this point is developing a system that can do our gross profit testing for us," he said. The test would probably involve both slot and hand-held scanning equipment, he added.

Interest in scanning was not limited to the giant chains. Drug Fair of New Jersey, the 22-store company based in Somerville, N.J., was also readying a test.

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10-year drug store share trends

Year	% Chain store share	% Independent share
1983	32%	68%
'82	33	67
'81	30	70
'80	30	70
'79	31	69
'78	30	70
'77	29	71
'76	28	72
'75	27	73
'74	26	74

Source: Chain Store Guides, A. C. Nielsen total store estimates

About this report

For this, our 1984 Annual Report of the Chain Drug Store Industry, *Drug Store News* has revised its definition of a chain operation. In previous annual reports, we defined a chain as a company operating just two or more stores.

In 1984, we decided to adopt the National Association of Chain Drug Stores' definition of a chain: a company operating four or more stores. This is also the definition used by the A. C. Nielsen Co., whose industry overview we will publish Sept. 3.

As in earlier years, we have again based our Annual Report primarily on four sources: Our own *Drug Store News* survey of stores operated by the top 100 chain drug companies; *Chain Store Guides'* annual survey of chain drug companies, the U.S. Department of Commerce, and company annual reports.

We also used research generated by A. C. Nielsen and Dun and Bradstreet.

Top 50 chains: 1983* store totals

Rank	Chain	Headquarters	Total	% change
1.	**Revco**	Twinsburg, Ohio	1,661	4.00
2.	**Eckerd**	Clearwater, Fla.	1,371	9.00
3.	**Rite-Aid**	Shiremanstown, Pa.	1,128	6.00
4.	**Walgreens**	Deerfield, Ill.	941	7.00
5.	**SupeRx**	Cincinnati	606	7.00
6.	**Peoples**	Alexandria, Va.	575	4.00
7.	**Thrifty**	Los Angeles	537	0.07
8.	**CVS**	Woonsocket, R.I.	513	10.00
9.	**Jewel****	Oak Brook, Ill.	498	6.00
10.	**Shoppers Drug Mart**	Toronto	436	0.05
11.	**Adams Drug**	Pawtucket, R.I.	425	− 5.00
12.	**Medicine Shoppe**	St. Louis	420	14.00
13.	**Gray Drug Fair**	Cleveland	402	6.00
14.	**American Stores*****	Salt Lake City	397	4.00
15.	**Thrift**	Pittsburg	360	3.00
16.	**Hook**	Indianapolis	282	8.00
17.	**Perry**	Pontiac, Mich.	190	4.00
18.	**Boots**	Toronto	183	5.00
19.	**Longs**	Walnut Creek, Calif.	178	3.00
20.	**Pay Less NW**	Wilsonville, Ore.	149	1.00
21.	**Pay 'n Save**	Seattle	143	− 2.00
22.	**K & B**	New Orleans	125	9.00
23.	**Medicare-Glaser**	St. Louis	100	− 0.09
24.	**Big "B"**	Birmingham, Ala.	94	15.00
25.	**Dart**	Landover, Md.	72	4.00
26.	**Genovese**	Melville, N.Y.	72	9.00
27.	**L. F. Widmann**	McElhatten, Pa.	71	16.00
28.	**Pharm-Escomptes Jean Coutu**	Quebec	70	17.00
29.	**Kent Drug**	Mississauga, Ontario	69	33.00
30.	**Big "V"**	London, Ontario	67	6.00
31.	**Super X Drugs**	Downsview, Ontario	59	4.00
32.	**Standard Drug**	Richmond, Va.	57	6.00
33.	**Snyder Drug**	Minnetonka, Minn.	55	27.00
34.	**La Verdiere's**	Winslow, Me.	55	6.00
35.	**Medi-Mart**	Quincy, Mass.	54	8.00
36.	**Taylor Drug**	Louisville, Ky.	47	0.00
37.	**Union Prescription**	Milwaukee	46	0.00
38.	**Begley Drug**	Richmond, Ky.	46	0.00
39.	**White Drug**	Jamestown, N.D.	43	16.00
40.	**Kerr Drug**	Raleigh, N.C.	42	24.00
41.	**Page Drug******	Dallas	42	5.00
42.	**Harco**	Northport, Ala.	39	0.00
43.	**Carls**	Rome, N.Y.	36	3.00
44.	**Arbor Drug**	Troy, Mich.	35	25.00
45.	**Wellby Super Drug**	Portland, Me.	30	11.00
46.	**Kinney Drug**	Gouverneur, N.Y.	25	9.00
47.	**Ribordy Drug**	Valparaiso, Ind.	25	9.00
48.	**Muir Drug**	Grand Rapids, Mich.	25	0.00
49.	**Community Distributors**	Somerville, N.J.	22	10.00
50.	**Pharmacity**	North Billerica, Mass.	22	11.00

*Most recent fiscal year
**202 Oscos, 176 Sav-Ons, 120 Jewel/Osco combos
***190 Skaggs, 137 Rea & Derick, 70 Skaggs/Alpha Beta combos
****14 Pages, 28 Tom Thumb/Page combos

Source: *Drug Store News* survey

SCRIPTIONS
LET US PRICE YOUR NEXT PRESCRIPTION

Continued from page 52

The chain, which was in the process of installing Data Terminal Services programmable registers in its stores, had decided to insert slot and hand-held scanners into checkout systems. Drug Fair was already using scanners to check out merchandise sold in its liquor departments.

1983 Average sales per store

All stores	Chain stores	Independents
$894,300	$1,427,700	$594,600

Source: *Drug Store News*, Department of Commerce

At Drug Fair, at least 60% of the merchandise carries scannable bar codes. Controller Tony Marhan said that on the remaining 40% the chain would afix special price stickers with six-digit item numbers that could be punched into the register. That would automatically look up and record the price.

Customized price file

Medi Mart was relying on the experience of its parent company, Stop & Shop, for the first test of drug store scanning that was set to begin in March. The chain was preparing to use Sweda L70 programmable POS terminals with an in-store mini-computer containing a master item file adapted from the parent company's supermarket master file.

Medi Mart was planning to store in each terminal the item numbers of at least 500 fast-moving products as well as advertised items. The remainder would be stored in the mini-computer in the rear of the store. Special adhesive bar code stickers would be added to products not coded by manufacturers.

1983 Breakout of multiunit stores by unit size

2-3 store companies	1,409
# of 2-3 stores in operation	3,234
4-10 store companies	402
# of 4-10 stores in operation	2,171
11-25 store companies	68
# of 11-25 stores in operation	1,062
26-50 store companies	15
# of 26-50 stores in operation	542
51-100 store companies	10
# of 51-100 stores in operation	678
100-200 store companies	12
# of 100-200 stores in operation	1,578
200 stores or more	15
# of 200 stores in operation	9,938
Total # of companies operating multiunit stores	1,931
Total # of multiunit stores	19,203
Total # of companies operating 4 or more stores	522
Total # of 4 or more stores	15,969

Source: Chain Store Guides

For Rite Aid, one of the big potential pluses of its three-store scanning test was the chance to try eliminating item price marking—a first for drug stores. Savings in labor costs was the attraction. According to one chain exec, the savings would probably allow Rite Aid to recoup its equipment investment in a little more than a year.

Pay 'n Save was using the same combination approach in its roll-out of checkout scanning. Following a 3½-month test of both types, the Seattle-based chain planned to equip a total of 12 stores in its home market by year end. According to chain execs, it will take three to four years to complete installation in the remaining stores.

Expansion surge foreseen in 1984

The past year was not a big one for acquisitions, despite the blockbuster deal involving Imasco and Peoples, but with interest rates remaining fairly stable it's likely that 1984 will bring a resurgence of activity.

Some of the biggest deals during the year involved diversification by the chains, including Pay 'n Save-Schuck's, Rite Aid-ADAP and Perry-Fleenor's.

On the chain drug front, there were some smaller acquisitions, including Eckerd's purchase of 11 Sav-On and Osco stores in Texas, Louisiana and Oklahoma; Revco's acquisition of eight Sommers stores in Texas; Hook's purchase of five Harding drug stores in Illinois, and Rite Aid's acquisition of six Family Drug Stores in Akron, Ohio.

But in the main, drug chains pursued the same strategy they used the previous year: Filling in existing markets with new stores.

In the coming year, chains seem more willing to open their wallets as the economy continues to prosper and as interest rates remain steady. The rate situation has also drawn shopping center builders back into action, and that development will create more sites for the chains.

Many of the drug retailing companies that scaled down their expansion activity in the past two years now smell the opportunity for more rapid growth.

Walgreens, for example, has a stepped-up expansion plan for fiscal 1984 that calls for 80 new stores. In addition to Chicago, major growth is scheduled for the San Francisco Bay area (11 new stores), Milwaukee, St. Louis, and the states of Texas and Florida. A smaller expansion effort is aimed at New York, a market from which the Deerfield, Ill.-based chain had slowly retreated in recent years. There was evidence that New York might be only the first step in the Northeast. Charles R. Walgreen III, chairman and ceo, called that region "one of the most under-chained markets in the country."

Fay's schedules 17 stores

Fay's was another chain that planned to boost its expansion efforts. In its most recent fiscal year, the Liverpool, N.Y.-based chain opened 10 new stores. In the current year, Fay's has slated as many as 17. Unlike Walgreens, whose farflung stores make it almost a national chain, Fay's will stick to the markets that lie within a 250-mile radius of its Liverpool distribution center.

Chain stocks: a hot performance

Chain drug stocks put on a sizzling show in 1983.

From year-end 1982 to the close of 1983, *Drug Store News*'s index of 18 publicly traded chain drug stocks rose from 100 to 146.

If a savvy investor could have spread his money evenly over the total number of stocks, the performance would have meant a capital gain of $46 for every $100 invested.

Chain drug stocks even outperformed the high-flying retail industry as a whole. Kidder Peabody's index of 200 retail stocks increased from 100 at the beginning of the year to 140, six percentage points behind the chain drug stocks.

But if the year-to-year gain was outstanding, the performance for the first six months of 1983 was even better. From the beginning of the year to the end of June, *Drug Store News*'s chain drug stock index increased from 100 to 156.

The hottest performing stocks for the year were Genovese, which rose 150%, Fay's (up 110%), Big B (up 104%) and Dart (up 103%).

But every chain drug stock turned in a strong performance during the year. Even the Jack Eckerd Corp., which had been suffering from flat earnings in the past two fiscal years, rode the bull market to a 12.7% year-to-year stock price gain.

The most volatile performer was Dart Drug, which reached a high of $148 before settling back to $63 at year end. Dart's surge was based on its spinoff of Trak Auto and Crown Books. In fact, in the month following the Trak Auto spinoff, the price of Dart's stock doubled.

Filling in markets

Thrifty, a partner in Crown Books and Trak Auto West, also benefited from the spinoffs, although to a lesser extent because the profits returned to the Los Angeles-based retailing company from the two ventures had less of an impact on total corporate earnings than they did on Dart's profit performance. Thrifty's stock price advanced 88% during the year.

In general, chain drug stock prices have not fared as well in the first quarter of 1984 as they did the previous year. Almost every stock has declined in value from its year-end price, following an overall decline in stock market prices.

The big exception was Peoples Drug, which rose from $25.50 at year-end to $32.75 on April 8. That was a special case, however. The runup was the result of Imasco's $34-per-share offer to buy Peoples Drug Stores at a time when the stock price of the Alexandria, Va.-based was hovering around $25.

1983 Chain drug stock performance

Company	1983 stock prices			'83 % change	Year-end '83 P/E	Year-end '82 P/E	4/9/84 Price
	High	Low	Last				
Adams	24.88	8.83	16.63	+ 77.4	12.8	10	13.25
American	44.00	19.22	39.63	+ 81.5	11.9	10	29.13
Begley	24.00	9.50	16.50	+ 61.3	13.0	10	16.00
Big B	14.50	6.44	13.00	+104.0	27.7	18	11.13
Dart	148.00	29.75	63.00	+103.2	6.7	11	64.50
Eckerd	34.88	23.00	27.75	+ 12.7	14.2	14	22.50
Fay's	14.50	5.69	13.25	+109.9	24.5	16	9.88
Genovese	20.50	5.63	17.38	+150.0	20.9	10	13.00
Hook	29.75	15.34	29.25	+ 86.0	14.3	12	18.75
Longs	50.13	33.75	48.63	+ 36.5	14.8	13	39.88
Pay 'n Save	28.75	15.44	25.88	+ 94.0	11.9	12	18.00
Pay Less	20.19	12.25	18.13	+ 27.0	15.1	14	15.63
Peoples	31.75	16.50	25.50	+ 33.6	14.2	14	32.75
Perry	22.38	8.50	16.13	+ 87.0	15.8	12	15.25
Revco	36.25	25.09	34.63	+ 28.3	15.1	15	31.25
Rite Aid	46.88	28.19	44.50	+ 44.4	16.7	15	19.00*
Thrifty	25.25	8.63	17.50	+ 87.9	18.0	10	13.25
Walgreens	40.38	26.00	38.25	+ 35.9	17.1	15	31.63

*Rite Aid split 2-for-1 Jan. 30, 1984

Source: Media General

Chains automate warehouses

Chain drug companies effected dramatic changes in 1983 as they moved aggressively to expand and modernize their warehouses and distribution centers. The trend toward centralized, streamlined facilities with state-of-the-art technology continued at a rapid pace as chains focused on cost effectiveness and improved delivery time.

Peoples Drug Stores realized a major goal in its eight-year strategic planning program with the selection of a site in Fredricksburg, Va., for a new $20 million, 500,000-sq.-ft. distribution center. The facility, which will service Peoples 370-plus stores in the mid-Atlantic region, is designed to accommodate as many as 500 stores by 1990.

A key factor in the center's success will be the Advanced Inventory Management System (AIMS) which monitors shipments, providing corporate level marketing departments with more accurate projections of future inventory needs. AIMS is also equipped for automatic reorders of basic merchandise items and provides options for other functions such as forecasting and tracking of promotional deals and co-op advertising.

Eventually, the system will play a critical role in such areas as quantifying optimum space allocations in store planograms and determining optimum gross margin returns on investment.

Expansion effort

In another expansion effort, Revco Drug Stores boosted its warehouse capacity to more than 2 million sq. ft. with the opening of new warehouses in Kansas and Alabama and the expansion of its facility in North Carolina. These three, plus the anticipated construction of a new 400,000-sq.-ft. warehouse in Dallas, are the operational backbone of Revco's five-year plan aimed at managing 2,300 stores.

Once again, technology is the key to Revco's successful operations. An upgraded software program for the IBM System 38 has enhanced worker productivity by fine-tuning batch-picking procedures and streamlining receiving functions, direct put-aways, management of in-storage merchandise and store deliveries. Scott Leesburg, vp of systems, says that although the system was costly initially, it's a must in today's modern warehouse. He projects that Revco will realize a payback on its investment in approximately 2½ years.

Walgreens' third 100% mechanized distribution center in Flagstaff, Ariz., is another success story involving sophisticated computer systems. Computer-guided order processing and stock replenishment, computer-controlled mechanized picks of fast-moving items and scanner reading of bar coded labels on case picks have reduced overall distribution costs by 25% in the past five years for two prior mechanized centers and Walgreens' projections for Flagstaff are just as optimistic.

In many cases, these new units have been able to shave as many as two days off an order cycle, decreasing costs and halving delivery time to their stores.

Costs decreased

Commenting on Flagstaff's predecessor in Orlando, Fla., vp of distribution and manufacturing John Brown says that distribution costs decreased substantially while dollar volume processed through the system has increased by 60%.

Reduced handling costs was also cited as a principal reason for computerized warehouse operations at Thrifty Drug. Its Merchandise Control System (MCS) totally utilizes warehouse space and features automatic matching of receipts and invoices. It reduces accounts payable expenses, shortens the cash receipt cycle and, in addition, provides for zone retail pricing which fosters improvement of gross margins by directly addressing competition in specific geographic areas.

In other developments, Hook Drugs completed a three-year multimillion-dollar expansion and modernization program involving its distribution and service center. It now relies on a warehouse system which has grown to more than 596,000 sq. ft.

One of the major components of Hook's warehouse technology is the Barrett Automatic Guided Vehicle System which replaced the mechanical chain-driven carts formerly used to handle incoming merchandise. Productivity has also been enhanced by the installation of three flow modules from which merchandise is selected for store orders and a shipping cover conveyor system which allows merchandise to be transported directly from filling station to trucks.

Progressive blend

A progressive blend of people and technology characterizes SupeRx's new $10 million, 381,000-sq.-ft. distribution center in Bluffton, Ind. It relies primarily on a double-deck flow rack picking system with swing-reach fork lifts guided by infloor electrical wires.

The Bluffton center is the fourth such regional facility to service this chain's growing network of stores. It links all but a handful of Phoenix area stores into a centralized distribution system stocked by Peyton Inc., the Louisville-based nonfoods distribution arm of the Kroger Co., SupeRx's parent. Peyton supplies 85% of the pharmaceutical, OTC and H&BA and general merchandise inventory of the stores it serves, eliminating reliance on wholesalers as well as direct-store and jobber deliveries.

In an effort to ease space pressure created by the recent addition of more centrally warehoused lines such as toys, cigarettes and sunglasses, Pay Less NW announced construction of a major distribution center in northern California. Projected size falls within the 600,000- to 800,000-sq.-ft range in order to accommodate the chain's 72 super drug stores in that area. Pay Less also began warehousing prescription drugs for the first time in its 40-year history in a further move to increase centralized distribution.

Computers have been instrumental not only in their application to actual warehousing operations but also in the intricate planning stages which precede construction and expansion.

Eckerd Drug utilized a computer study developed by Bradford Information Systems to select a spot for a new warehouse that would maximize reduced shipping costs. Taking into account such variables as cost per driver and speed limitations, the study can determine which warehouse site can best serve particular retail outlets. A similar system can pinpoint the least expensive routes for drivers delivering merchandise.

Top drug chains in warehousing

Chain	1983		1982	
	No. of facilities	Total sq. ft.	No. of facilities	Total sq. ft.
Eckerd	6	2,608,000	6	2,608,000
Revco	9	2,195,831	8	1,700,000
Walgreens	6	1,746,000	5	1,546,000
Thrifty	3	1,180,000	3	1,180,000
Peoples	6	1,000,000	6	1,000,000
Rite-Aid	3	980,000	3	980,000
Jewel	2	800,000	2	800,000
CVS	2	689,000	2	649,000
Thrift	3	664,000	3	664,000
Gray Drug Fair	3	625,000	3	625,000
Hook	1	600,000	1	600,000
SupeRx	2	560,000	2	560,000
K&B	2	540,000	2	540,000
Pay 'n Save	2	540,000	2	540,000
Pay Less NW	1	533,000	1	275,000
Dart	1	500,000	1	500,000
Adams	1	410,000	1	385,000
Tom Thumb Page	1	400,000	1	385,000
American Stores	8	388,000	8	388,000
Snyder's	1	363,000	1	363,000
Fay's	1	295,000	1	295,000
Perry	2	288,000	1	224,000
Malone & Hyde	1	210,000	1	210,000
Courtesy	1	175,000	1	175,000
London Drugs	1	169,000	1	169,000
Boots	1	120,000	1	120,000
Rix	1	105,500	1	105,500
Kinney	2	105,500	2	105,500
Pharm-Escomptes	2	100,000	1	66,000
Duane Reade	1	100,000	1	100,000
Standard Drugs	1	100,000	1	100,000
Big B	1	100,000	1	100,000
LaVerdiere's	1	100,000	1	100,000
Carls	1	100,000	1	100,000
Begley	1	100,000	1	100,000
Discount Drug Mart	1	91,000	1	91,000
Kerr	1	88,000	1	88,000
Drug Fair of NJ	1	81,000	1	81,000
Taylor Drug	1	80,000	1	80,000
Medicare-Glaser	1	80,000	1	50,000
A. D. Clark	1	75,000	1	75,000
Arbor	1	72,000	1	72,000
Pharmacity	1	70,000	1	70,000
Harco	1	60,000	1	60,000
Muir	1	60,000	1	60,000
Big "V"	1	60,000	1	60,000
Genovese	1	60,000	1	60,000
White Drug	2	55,000	1	40,000
Longs*	1	50,000	1	50,000
Ribordy	1	50,000	1	50,000
People's Drug Mart	1	40,000	1	40,000
L. F. Widmann	1	40,000	1	40,000
Erickson	1	40,000	1	40,000
Lewis Drug	1	30,000	1	30,000
Douglas Drug	1	20,000	1	20,000
Sentry	1	20,000	1	20,000
Mi-Lo	1	15,000	1	15,000
Mays	1	15,000	1	15,000
Medi Mart	1	13,000	1	13,000
Bartell	1	10,000	1	10,000

*Includes variable leased space

Source: *Drug Store News* Survey

PERFORMANCE 1984 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

1984 financial scorecard

Total sales*
Add 000

	End FY	'83	'82	'81	'80	'79
1. Walgreens	8/31/83	$2,360,614	$2,039,496	$1,743,471	$1,530,722	$1,344,542
2. Eckerd	8/1/83	2,325,044	2,080,183	1,752,550	1,408,455	1,325,140
3. Revco	5/28/83	1,792,756	1,554,656	1,310,404	1,092,797	927,533
4. Rite Aid	3/3/84	1,223,265	1,049,260**	1,066,474	944,151	811,100
5. Pay 'n Save	1/31/84	1,220,521	1,043,218	949,189	823,390	709,063
6. Longs	1/26/84	1,214 443	1,123,234	1,005,370	893,390	773,251
7. Thrifty	8/31/84	1,187,313	1,126,203	1,054,418	949,304	858,358
8. Payless NW	1/31/84	852,937	784,704	758,529	750,947	380,500
9. Peoples	9/30/83	791,147	688,409	634,292	561,836	441,114
10. Hook	12/31/83	320,528	285,226	261,155	235,503	207,215
11. Fay's	1/31/84	312,368	270,275	238,233	243,117	194,037
12. Adams	12/31/83	302,133	286,247	242,489	207,014	175,754
13. Dart	1/31/84	NA	291,820	276,937	259,900	231,211
14. Perry	10/31/83	285,502	244,272	192,066	136,427	109,275
15. Genovese	1/29/84	193,772	158,651	134,155	122,000	97,447
16. Big B	1/28/84	116,988	87,413	NA	NA	NA
17. Duane Reade	10/31/83	102,225	89,572	NA	NA	NA
18. Medicare Glaser	3/31/83	69,738	57,907	NA	NA	NA
19. Begley	3/31/83	56,786	49,982	47,289	42,774	36,326
20. Rix	8/30/83	34,706	31,576	30,936	29,030	26,239

*Corporate sales have been used; drug store volume has not been separated from nondrug volume.
**Restated to reflect Super Rite offering

Sales Per Store*
($000)

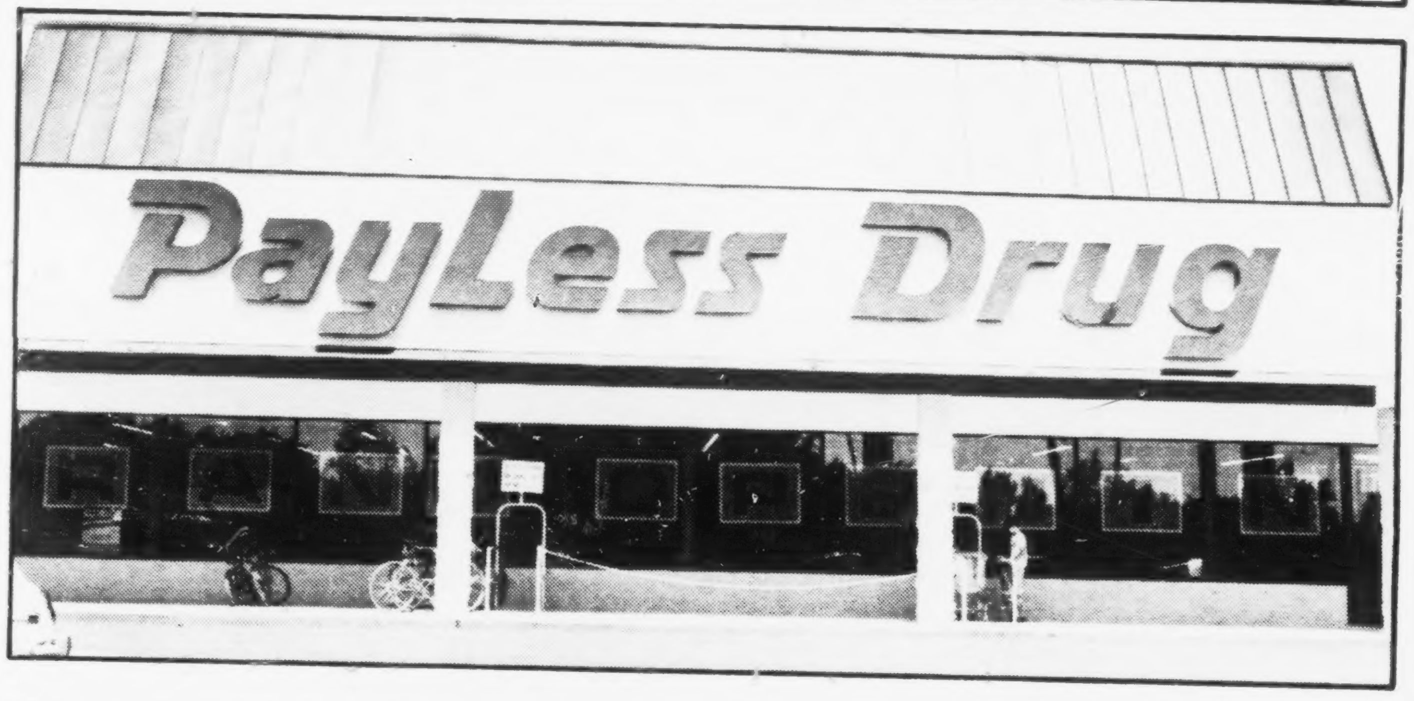
	'83	'82	'81	'80	'79
1. Longs	$6,823	$6,493	$6,206	$5,995	$ 948
2. Pay Less NW	5,724	5,338	5,304	5,000	4,275
3. Pay 'n Save	5,022	4,553	5,496	3,924	3,908
4. Duane Reade	4,868	4,479	N/A	N/A	N/A
5. Fay's	3,062	2,938	2,836	2,190	1,848
6. Walgreens	2,379	2,179	1,911	1,910	1,777
7. Genovese	2,691	2,404	2,199	2,103	1,874
8. Perry	2,012	1,954	1,641	1,406	1,707
9. Eckerd	1,521	1,462	1,413	1,348	1,264
10. Thrifty	1,507	2,113	1,975	1,795	1,660
11. Peoples	1,376	1,243	1,204	1,158	1,106
12. Dart	N/A	1,309	1,620	N/A	N/A
13. Big B	1,182	1,053	N/A	N/A	N/A
14. Hook	1,113	1,049	1,016	916	826
15. Revco	1,079	976	866	876	812
16. Rite Aid	1,066	938	871	849	798
17. Rix	1,052	929	844	764	709
18. Begley	1,010	802	712	663	605
19. Adams	719	642	504	529	426
20. Medicare-Glaser	690	651	N/A	N/A	N/A

*Sales per store: This figure includes drug store volume only, except when this number can't be determined. In such cases corporate sales are used. Sales per store is computed on stores open at year end, and thus the figure tends to be understated. Where available, sales per store open the full year have been used.

RITE AID PHARMACY

OME DART DRUG E

REVCO DRUGS
NEW
Food dept



Gross Margin (%)*

	'83	'82	'81	'80	'79
1. Hook	34.4%	33.9%	33.6%	35.2%	34.9%
2. Begley	33.4	31.0	32.0	31.8	35.2
3. Duane Reade	33.1	30.0	NA	NA	NA
4. Medicare-Glaser	33.1	33.2	NA	NA	NA
5. Walgreens	30.6	30.5	29.3	29.[illegible]	29.8
6. Genovese	29.9	29.9	29.8	29.9	29.9
7. Pay 'n Save	29.9	29.1	29.2	29.5	29.4
8. Perry	29.9	29.8	29.8	30.4	30.5
9. Big B	29.8	29.6	NA	NA	NA
10. Pay Less NW	28.8	25.9	27.4	26.2	27.2
11. Eckerd	28.3	28.7	29.3	29.2	29.3
12. Thrifty	28.2	27.9	27.4	26.7	25.7
13. Rite-Aid	28.2	27.1	22.6	23.1	21.6
14. Adams	27.7	21.5	22.0	22.7	29.1
15. Revco	27.1	27.0	26.7	26.6	26.5
16. Fay's	25.6	24.9	25.3	23.5	25.3
17. Peoples	25.0	25.1	23.8	24.4	23.5
18. Longs	24.6	24.1	24.1	23.4	32.1
19. Rix	7.1	7.6	6.5	9.2	8.2
20. Dart			29.8	21.6	21.8

*Gross margin: Those cases where the cost of goods sold includes other items (occupancy costs, warehousing expenses, buying costs, etc.) reduce both gross margin and the expense ratio. Where possible such costs have been removed and put in operating expenses.

Net income*
(add 000)

	'83	'82	'81	'80	'79
1. Eckerd	$71,731	$70,681	$78,510	$69,254	$59,303
2. Walgreens	69,789	56,064	42,127	34,813	30,293
3. Revco	66,470	49,638	45,129	38,916	33,636
4. Rite Aid	62,167	49,885	39,852	35,885	30,201
5. Longs	36,387	30,890	30,274	25,862	26,687
6. Pay 'n Save	30,104	16,807	12,897	18,998	19,313
7. Pay Less NW	24,721	19,375	16,649	14,317	12,400
8. Thrifty	22,503	18,302	17,752	14,745	14,200
9. Peoples	13,656	10,483	9,304	8,178	6,457
10. Dart	NA	9,112	4,170	1,385	3,565
11. Hook	8,699	6,592	5,853	7,318	3,373
12. Fay's	8,103	5,479	3,071	923	3,010
13. Duane Reade	7,856	5,507	NA	NA	NA
14. Adams	7,117	4,555	3,437	3,127	2,479
15. Perry	4,545	2,868	3,369	2,363	2,501
16. Genovese	3,856	2,646	1,780	516	1,557
17. Big B	3,471	2,541	NA	NA	NA
18. Medicare Glaser	970	76	NA	NA	NA
19. Begley	807	229	798	963	1,326
20. Rix	227	102	179	250	164

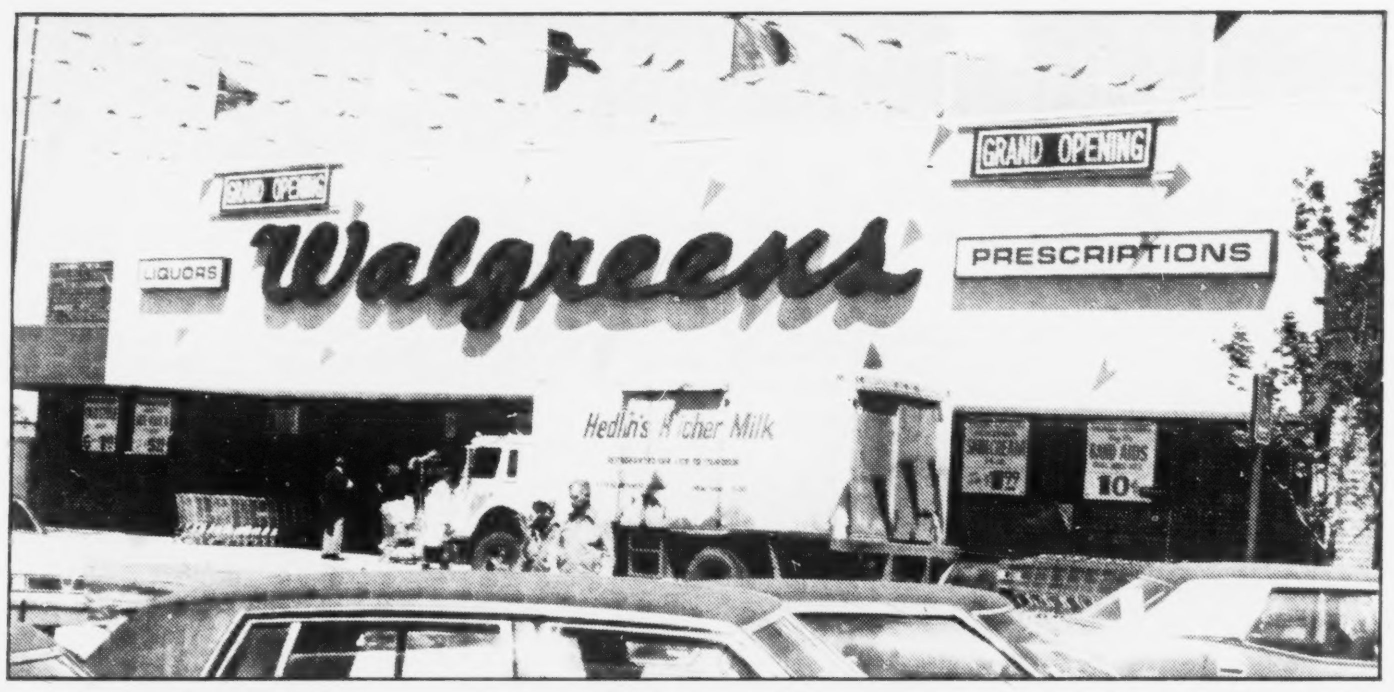
*Excludes income originating from special nonoperational sources.

1984 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PERFORMANCE

for 20 leading drug chains

LIQUOR
perry
PERRY
DISCOUNT AUTO PARTS
BRAKE SHOES 5.97
WATER PUMPS 9.97



Net-to-Sales Ratio*

	'83	'82	'81	'80	'79
1. Duane Reade	7.7%	6.1%	NA	NA	NA
2. Rite Aid	5.1	4.8	3.7	3.8	3.7
3. Revco	3.7	3.2	3.4	3.6	3.6
4. Eckerd	3.1	3.4	4.5	4.9	4.5
5. Dart	NA	3.1	1.5	0.5	1.5
6. Longs	3.0	2.8	3.0	2.3	3.5
7. Big B	3.0	2.9	NA	NA	NA
8. Walgreens	3.0	2.7	2.4	2.3	2.3
9. Pay Less NW	2.9	2.5	2.2	1.9	3.3
10. Hook	2.7	2.3	2.2	3.1	3.1
11. Fay's	2.6	2.0	1.3	0.4	1.6
12. Pay 'n Save	2.5	1.6	1.4	2.3	2.7
13. Adams	2.4	1.6	1.4	1.5	1.4
14. Genovese	2.0	1.7	1.3	0.4	1.6
15. Thrifty	1.9	1.6	1.7	1.6	1.7
16. Peoples	1.7	1.5	1.5	1.4	1.5
17. Perry	1.6	1.2	1.8	1.7	2.3
18. Begley	1.4	0.5	1.7	2.3	3.7
19. Medicare Glaser	1.4	0.1	NA	NA	NA
20. Rix	0.7	0.3	NA	0.9	0.6

*Net to sales: This figure represents the percentage attained when net profit after taxes is divided by total sales.

Return on Investment (%)*

	'83	'82	'81	'80	'79
1. Duane Reade	50.1%	34.0%	NA	NA	NA
2. Medicare-Glaser	21.6	1.8	NA	NA	NA
3. Walgreens	21.4	18.7	16.8%	16.8%	17.3%
4. Rite Aid	21.3	19.1	18.3	18.9	18.6
5. Genovese	21.3	16.1	12.6	4.5	1.3
6. Pay Less NW	20.9	18.1	18.2	19.8	18.6
7. Fay's	20.8	23.4	14.7	5.0	16.8
8. Hook	20.3	16.2	15.4	20.2	19.5
9. Revco	20.2	17.4	18.3	19.1	18.4
10. Dart	NA	19.1	13.6	NA	11.2
11. Thrifty	17.4	15.0	15.0	13.7	14.2
12. Longs	17.2	15.5	17.1	NA	19.1
13. Adams	16.5	11.5	9.7	10.2	8.5
14. Peoples	16.5	13.7	13.9	14.6	13.8
15. Pay 'n Save	16.0	10.7	8.8	13.7	15.6
16. Big B	14.6	11.5	NA	NA	NA
17. Eckerd	13.1	13.3	16.8	18.1	16.6
18. Perry	11.5	11.2	14.4	11.6	14.9
19. Begley	8.6	2.5	8.1	9.9	NA
20. Rix	4.9	2.3	NA	5.4	3.8

*Return on investment: The ROI was computed on stockholder's average investment in the firm.

Expense Ratio*

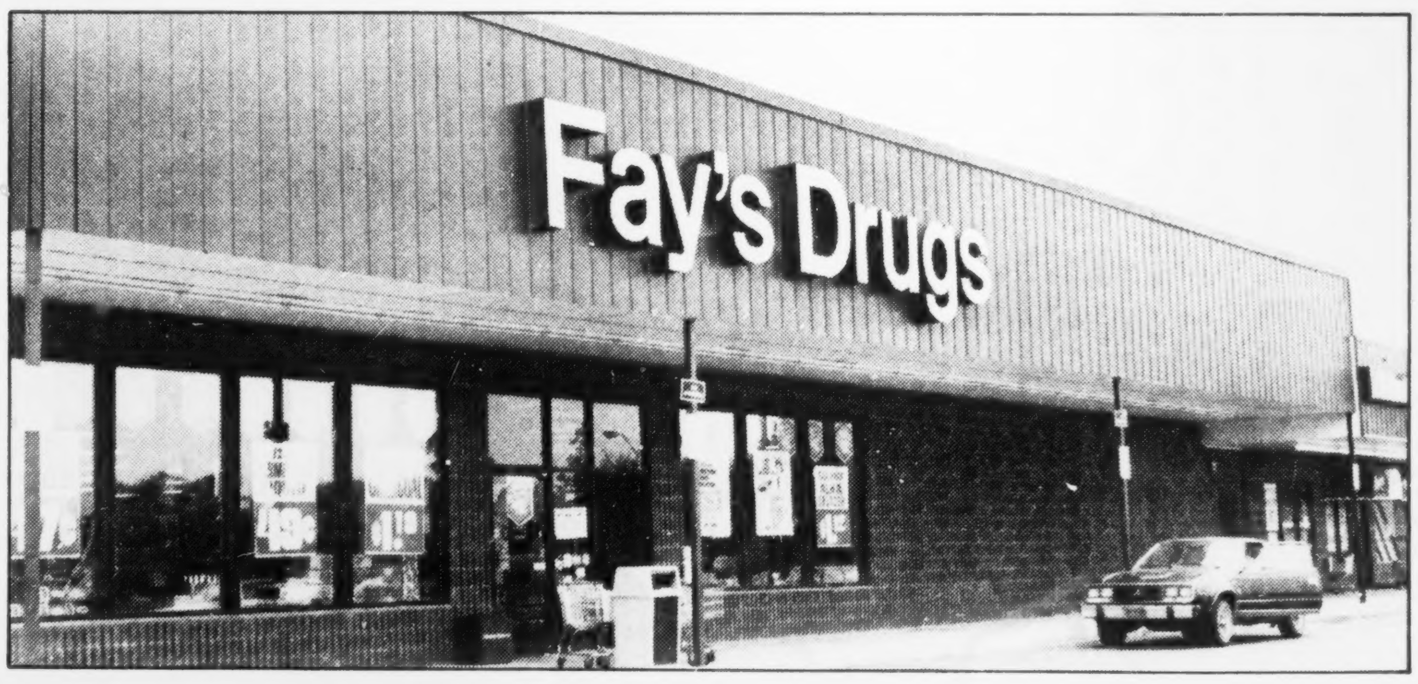
	'83	'82	'81	'80	'79
1. Begley	42.7%	37.8%	40.1%	38.9%	38.0%
2. Medicare-Glaser	28.3	30.1	NA	NA	NA
3. Hook	27.8	28.0	27.4	27.4	28.1
4. Perry	25.9	26.1	25.5	26.1	26.6
5. Genovese	25.0	25.3	26.0	25.2	25.7
6. Walgreen	24.4	25.1	25.0	24.5	25.1
7. Big B	23.7	24.1	NA	NA	NA
8. Pay 'n Save	NA	22.9	23.1	22.3	23.3
9. Adams	21.3	21.5	22.0	22.7	29.1
10. Eckerd	21.0	21.1	20.6	20.6	21.3
11. Pay Less NW	20.8	22.1	20.6	20.0	20.4
12. Peoples	20.4	20.5	19.5	20.0	20.3
13. Rite-Aid	19.9	16.2	13.7	13.6	13.2
14. Fay's	19.5	19.4	21.0	20.9	20.2
15. Revco	19.0	19.6	19.3	19.1	19.7
16. Longs	NA	18.0	17.6	17.1	17.6
17. Duane Reade	15.9	16.5	NA	NA	NA
18. Rix	5.4	5.9	6.1	5.9	6.1
19. Dart	NA	NA	16.1	14.5	17.2

*The expense ratio is for general costs of operation, such as selling, general administrative, occupancy and warehousing expenses as a percentage of sales. Depreciation and amortization have been excluded to have the ratios correspond as much as possible to cash outlays.

Drug stores*

	'83	'82	'81	'80	'79
1. Revco	1,661	1,593	1,514	1,247	1,143
2. Eckerd	1,319	1,238	1,135	1,045	957
3. Rite Aid	1,148	1,055	963	878	800
4. Walgreens	941	833	821	739	688
5. Peoples	575	554	527	485	399
6. Thrifty	537	533	534	529	517
7. Adams	420	446	481	391	412
8. Hook	288	272	257	257	251
9. Dart	NA	223	171	69	75
10. Longs	178	173	162	149	130
11. Pay Less NW	149	147	143	144	89
12. Pay 'n Save	143	142	124	129	111
13. Perry	122	125	117	97	64
14. Fay's	102	92	84	111	105
15. Medicare Glaser	101	89	NA	NA	NA
16. Big B	99	83	NA	NA	NA
17. Genovese	72	66	61	58	52
18. Begley	43	47	51	50	50
19. Rix	33	34	35	38	37
20. Duane Reade	21	20	NA	NA	NA

*Counts are generally for drug stores (or leased departments) unless otherwise indicated.



Chains to open more combos

Is big *really* better? To judge from the number of combination stores springing up across the country, the answer is emphatically "yes!"

More than one key ingredient is needed to make these modern behemoths successful and although there are a number of different "combinations" in existence, the marriage of food and drugs appears to be the most catalytic.

Why? Chain execs don't hesitate in their response—one-stop shopping with food generating the traffic and drugs boosting the profits. Exact statistics vary but one industry observer, who follows combos in the West and Southwest, puts it simply, "Supermarkets provide ⅔ of the volume and drug stores ⅔ of the profits."

With an average profit margin of 1% on food and 3% on drug, it's no wonder that many chains have become converts to the combo phenomenon. As Larry Nauman, vp of advertising and public relations at Dominick's Food Stores, comments: "It's getting harder and harder to make a living with just food. The combo is an attractive addition because it creates a better mix and sells more nonfood items at a higher margin. The results are on the bottom line."

Dominick's, which operates 76 stores in the Chicago area, is one of the newcomers to the field. The chain's first combo, Dominick's Family Center, opened in November 1983 and, according to Nauman, it quickly became its top-volume store. The 63,000-sq.-ft. center is open 24 hours, although the pharmacy has limited hours, and the breakdown is approximately 80% food, 20% pharmacy and drug store merchandise.

"Since site location, such as a shopping center, is frequently the determining factor for new outlets," says Nauman, "we'll continue to build solo food stores. But we're very pleased with the combo and hope to open several more in the coming year or so."

Chains' commitments to the combo vary substantially but the heaviest influx of this type of store is still to be found in the West and Southwest, where land is cheaper and easier to come by.

Food and drug partnership

Sacramento-based Raley's, one of the pioneers in the combo field, is 100% behind the food and drug partnership in both its combo and superstore formats.

Out of a total of 45 stores, Raley's has 40 combination-type markets and, in 1983 alone, opened four new superstores. Another is currently under construction in Redding, Calif., and others are planned for northern California in the future.

"We have a few freestanding food stores, says Frank McMinn, vp of advertising and merchandising, "but we don't intend to build any more. The combo provides the biggest plus in terms of profitability because the higher margin drug items benefit from the traffic generated by the two-three times a week grocery shopper."

Another chain experienced in combo marketing is Albertson's Inc., headquartered in Boise, Idaho. Albertson's has thrived in the combo business since 1970 and, at last count, 89 out of its 434 stores are combos. Three opened in 1983 and 11 more are on the boards for 1984. The average size is 55,000 sq. ft., although newer stores run approximately 60,000 sq. ft. with a merchandise mix equally divided between foods and nonfoods. The chain recently announced plans to go back into the hot Dallas market, where it will compete with such combo giants as Skaggs-Alpha Beta and Tom Thumb Page. Albertson's also plans a return to Tacoma, Wash.

"It's the popular one-stop shopping that is the chief advantage," remarks Bob Bolinder, vp of public relations. "Combos have bigger volume, better margins and, in some cases, better average sales per square foot." He notes, however, that there is a comparable ROI for Albertson's combos and noncombos, most of which are 44,000-sq.-ft. superstores with pharmacies.

Enthusiastic support for combos is echoed by other large chains such as Safeway, which is going full speed ahead in 1984. Out of a total 1,999 stores, 150 are combos, and that number will increase dramatically this year with the addition of 40-50 new stores.

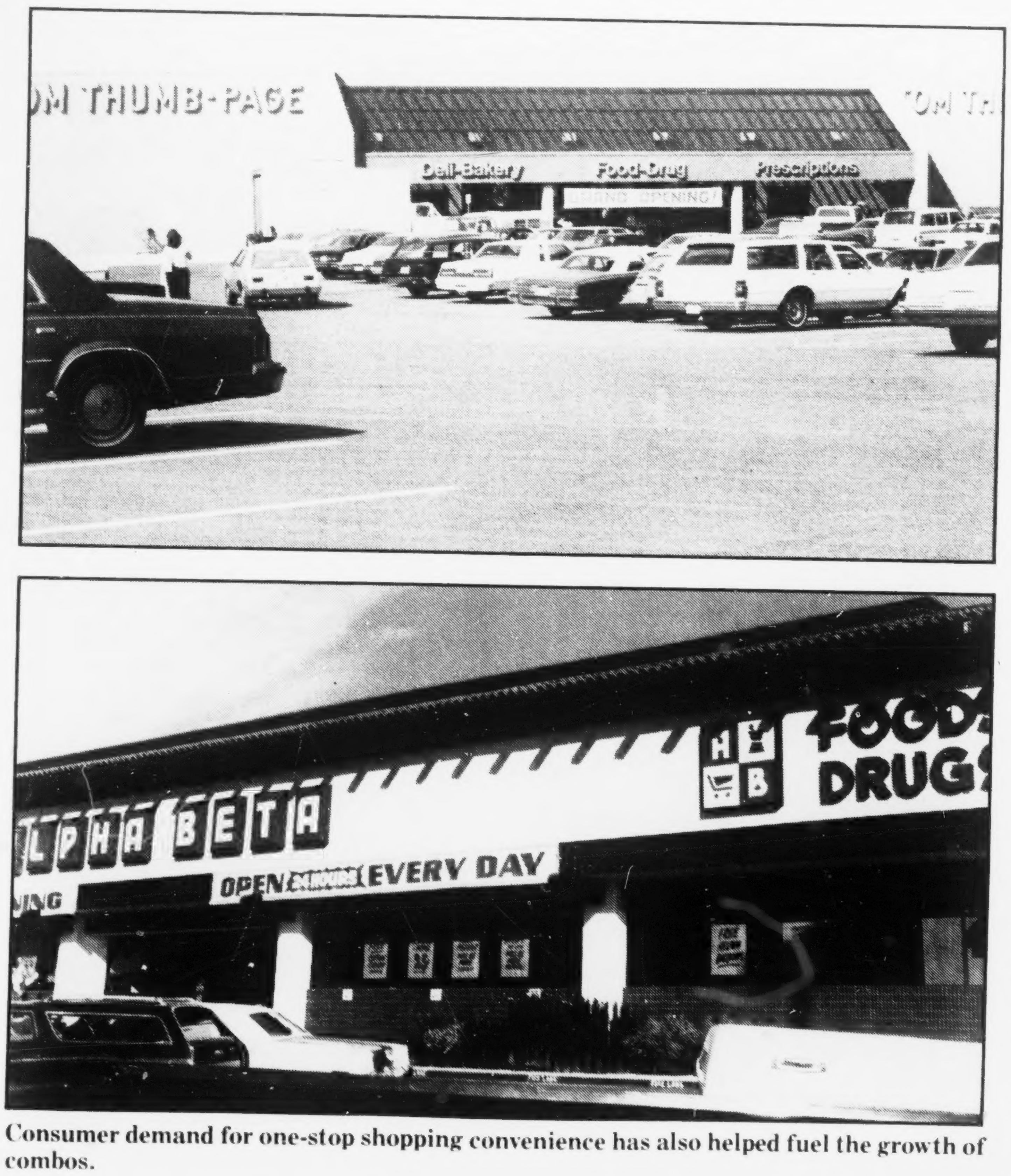
Another leader in the field, American Stores, increased its number of combos by 10% in 1983 (from 70 to 77) and plans to open 20 more this year. It's all part of an ambitious expansion program that the company says will mean 130 combos by year-end 1985.

But combo activity is by no means confined to the area west of the Mississippi. The Eastern Seaboard is steadily claiming its share of the market. Giant Food Inc. has been into combos since 1960 and presently numbers 74 combos among 131 stores. Two more are planned for 1984 with computerized, full-service pharmacies. Giant's newer combos average about 58,000 sq. ft. with pharmacy areas running about 10,000 sq. ft.

Integrated format

One of the principle reasons for Giant's success is its innovative use of an integrated format in some of their newer stores. Boundaries between food and drug areas are more subtly defined and encourage shoppers to move freely among areas, increasing sales of higher-profit toiletries and cosmetics.

"We pioneered this concept and certainly expect it to grow," says Barry Scher, director of public affairs. "Although we have been focusing recently on our nonfood areas in terms of computerizing pharmacies and developing experienced cosmetics personnel, it is really accurate to say that each department in our stores contributes to its overall success. We are committed to that quality across the board."



Consumer demand for one-stop shopping convenience has also helped fuel the growth of combos.

Other chains have found that a mix of stores is better suited to the demographics of their area. The synergistic effect of food and drugs attracted Wellby Super Drugs (Portland, Me.) into the combo field last year. The chain, a division of Hannaford Bros., opened its first 48,000-sq.-ft. combo in November and plans two more 42,000-sq.-ft. centers this spring. Bill Wood, vp, estimates that the higher gross items—health & beauty aids, cosmetics and drugs—typically comprise about 15%-18% of a combo's total merchandise.

While Wellby's is pleased with the combo approach to marketing, it is not limited to it. "Several different formats work in our area," Wood says. "In addition to the combos, we'll have four new super drug stores opening soon, one major expansion and we'll also be keeping our hand in with 7,500-sq.-ft. mini-combos and some smaller-scale, solo supermarkets."

Supers are initiators

As Wood and many others attested to, supermarket chains are the traditional initiators in the combo industry. Supers demand more expertise in a number of areas, such as handling perishables and are often more sophisticated in distribution and scanning techniques. But, an increasing number of drug chains are exploring the combo field successfully, and some, like Wellby's with Hannaford Bros., are able to rely on the food experience of a parent company.

A conservative approach

Another recent entry into combos is Big B, based in Birmingham, Ala. Big B's approach is, perhaps, more conservative than some other chains, but it too has endorsed the one-stop shopping trend. Its first combo opened in August 1982, and it now has four combos out of a total 100 stores. Arthur Jones, vp of finance, says that one more is planned for this fiscal year, and he predicts an average of two per year in the future.

Big B combos, which measure approximately 32,000 sq. ft., are usually divided into ⅔ food and ⅓ drug with the latter featuring the deep discounts offered in Big B drug stores. "We do substantially more volume with the combo than we do with a 9,000-sq.-ft. drug store," remarks Jones. Nevertheless, Big B is still committed to the discount-drug business and, in addition to the combos, will open 15 new drug stores this year.

Combos are undoubtedly big business but, like any marriage, they're not right for everyone. Industry analysts and leaders predict continued phenomenal growth in this area, but they also foresee a varied marketing scenario with mini-combos, superstores, solo supermarkets and discount drug stores claiming their place alongside the progressive combo.

PERFORMANCE

1984 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Pharmacy computer use skyrockets

Explosive growth: That's the only way to describe what happened to pharmacy computers in 1983. This year promises more of the same.

Drug Store News' annual survey shows that some 3,600 pharmacies—22% of the chain drug industry—had Rx computer systems in operation by year end.

In 1983 at least 10 companies followed the lead of chains like Pay Less, Fay's and Thrift in outfitting all prescription departments with computers. They included Walgreens, Standard Drug, Sentry, Arbor, Cook, Keltsch Bros., Kinney Drug, May's Drug Stores, Muir and Medicare-Glaser.

Among the Canadian companies that achieved chainwide installation were London Drugs Ltd. of British Columbia and Pharm-Escomptes Jean Coutu, Quebec.

Executives at Walgreens, which completed installation of its Intercom System, said computerization is one reason why script sales rose 25% during the year.

Intercom allows the Deerfield, Ill.-based chain to keep a file of each customer's script record. The system also provides for an emergency hot-line service that makes drug information available to medical specialists on a 24-hour basis. Also, the system permits transfer of information between hearing-impaired patients and selected Walgreens pharmacies.

Two of the biggest benefits of pharmacy computerization are economic: Improved inventory control and greater productivity.

In an earlier *Drug Store News* survey, chain execs credited Rx computers as being the prime factor in tightening inventory control. Despite the increase in average pharmacy inventory cost—from $33,500 in 1982 to $36,000 in 1983—annual stock turns increased to 7.4 times from seven times the previous year. And cost of inventory as a percentage of sales dropped to 8.8% from 9.2%.

What's more, the highly computerized companies reported dispensing 11 to 12 scripts per hour of operation and 67 to 74 scripts per pharmacist day.

In comparison, companies computerized on a limited basis or not at all were averaging eight to nine scripts per hour and 45 to 49 scripts per pharmacist day.

Gearing for expansion

Among the other chains gearing up for a major expansion of pharmacy computers are the following:

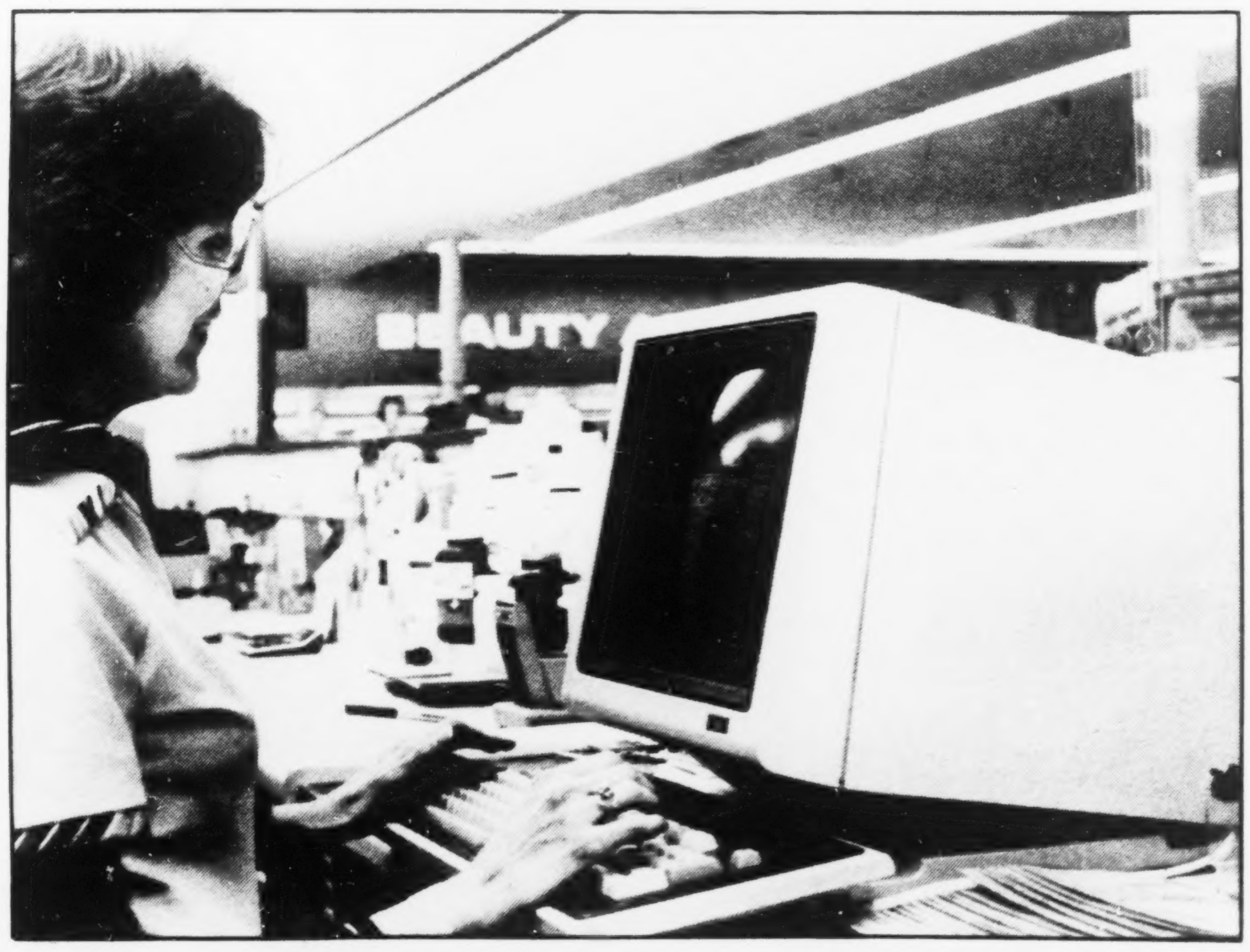
- Eckerd is in the process of rolling out Rx computers to all 1,300 of its prescription departments. Software will be tailored so that pharmacists can computerize transactions with hospitals, nursing homes and clinics as well as with individual patients.
- Medi Mart plans to continue installing POS terminals that can be used in conjunction with its pharmacy terminals. Data retrieved from both the POS and pharmacy terminals will provide management with up-to-the-minute inventory reports for every sku that passes through a cash register.
- Safeway is expanding tests of its IBM Series 1 terminals during 1984, and outlets will also evaluate IBM's point-of-sale scanners. At the same time, Safeway will also be looking at National Semiconductor scanners.
- Los Angeles-based Thrifty Drug Co. is also going the computer route during 1984 in an effort to improve its prescription department's bottom line.
- Perry Drug plans to have 100 pharmacy computer systems up and running in its stores by the end of 1984. One of the chain's goals is to streamline clerical functions in the areas of price updates and third-party script processing.
- Melville, N.Y.-based Genovese Drug Stores began installing pharmacy computer systems midway through 1983. The IBM units will be upgraded so that each store manager can use the system to prepare time and attendance records, purchase orders and cash reports as well as to monitor inventory and buying.

A number of other chains such as Peoples, Gray Drug Fair, Pay 'n Save, Rite Aid, Shoppers Drug Mart and Revco are also continuing to install computer systems in their prescription departments.

Speeding up work

Emphasis is on enhancing patient services, speeding up third-party scripts payment, productivity and fast price updates.

Expanded use of computers continues to play a wider role in chain drug operations, merchandising and distribution as they relate to the pharmacy department. At a minimum these devices are said to provide executives with a tool to improve levels of performance within the pharmacy department. But at their best computers provide new unique ways to improve services and levels of health care provided by the department.



Pharmacy computer installations through 1983

Chain	Headquarters	Units with Pharmacies	Pharmacomputers		
			1981	1982	1983
Albertson's	Boise, Idaho	117	30	60	80^e
Apex	Novi, Mich.	32	0	27	32
Arbor	Troy, Mich.	35	0	28	35
Austin	East Meadow, N.Y.	7	0	1	2
Begley	Richmond, Ky.	46	0	2	3
Big B	Birmingham, Ala.	94	72	83	94
Big V	London, Ontario	67	20	25	30
Boots	Toronto, Ontario	183	7	7	10
Cook's	Flint, Mich.	10	0	0	10
Crown	Advance, N.C.	16	0	1	7
Douglas	North Providence, R.I.	10	0	0	10
Drug Fair N.J.	Branchberg, N.J.	22	20	20	21
Drug King	Van Nuys, Calif.	17	0	0	0
Duane Reade	New York City	24	0	0	5
Eckerd	Clearwater, Fla.	1,317	5	20	400
Erickson's	Hudson, Wis.	13	0	0	6
Fay's	Liverpool, N.Y.	100	84	92	100
Freedom Drug	Exeter, N.H.	8	0	4	8
Genovese	Melville, N.Y.	72	0	6	26
Gray Drug Fair	Cleveland	376	15	31	31
Harco	Northport, Ala.	47	0	1	2
Hook's	Indianapolis	288	18	50	80
Keltsch Bros.	Fort Wayne, Ind.	12	1	5	12
Kinney Drugs	Gouverneur, N.Y.	25	15	23	25
Lewis Self Service	Sioux Falls, S.D.	5	5	5	5
London Drugs Ltd.	Richmond, B.C.	20	9	18	20
Longs	Walnut Creek, Calif.	178	0	11	55
May's	Tulsa, Okla.	11	7	10	11
Medicare-Glaser	St. Louis	100	40	69	100
Medicine Shoppe	St. Louis	546	31	76	151
Medi Mart	Quincy, Mass.	54	0	0	20
Muir	Grand Rapids, Mich.	25	12	16	24
Osco	Oak Brook, Ill.	322	0	0	4
Otto Drugs	Louisville, Ky.	14	3	9	13
Pathmark	Edison, N.J.	17	2	5	8^e
Pay Less NW	Wilsonville, Ore.	142	60	90	142
Pay 'n Save	Seattle	145	60	62	79
Peoples	Alexandria, Va.	575	10	30	60^e
Peoples Drug Mart Ltd.	Vancouver, B.C.	54	0	18	18^e
Perry	Pontiac, Mich.	124	0	15	32
Peterson Drug Co.	Oakfield, N.Y.	17	1	1	1
Pharm-Escomptes Jean Coutu	Longueil, Quebec	70	62	62	70
Rea and Derick	Northumberland, Pa.	117	10	15	25^e
Revco Drugs	Twinsburg, Ohio	1,661	10	70	169
Ribordy	Valparaiso, Ind.	25	3	6	12
Rite Aid	Shiremanstown, Pa.	973	0	26	36^e
Rix	Auburndale, Mass.	7	0	2	6^e
Sentry	Romulus, Mich.	15	5	12	15
Shoppers Drug Mart	Toronto, Ontario	445	25	56	60^e
Snyder Drug	Hopkins, Minn.	198	0	1	5
Standard Drug	Richmond, Va.	38	0	0	38
SupeRx	Cincinnati	554	32	42	75^e
Super X Drugs	Downsview, Ontario	57	7	10	15
Taylor	Louisville, Ky.	47	0	0	4
Thrift	Pittsburgh, Pa	358	250	325	345
Thrifty	Los Angeles	528	0	0	4^e
Tom Thumb Page	Dallas	40	0	0	4
Union Prescription Centers	Milwaukee	118	0	0	7
Walgreens	Deerfield, Ill.	895	50	450	895
Wellby	Portland, Me.	30	0	0	3
White Drug	Jamestown, N.D.	53	2	2	3

^{e}Estimated

Source: *Drug Store News* Survey

Chains court home health image

Chains, wholesalers and manufacturers are continuing to expand into the home health care market.

According to a *Drug Store News* survey, there are currently 13 major chains which operate freestanding home health care centers. There are also growing numbers of wholesalers making home health care products available to their retail clients as well as a number of manufacturers who are experimenting with some variation of a home health/convalescent aids center.

On the chain front, Hook Drug in Indianapolis and Harco Drug in Northport, Ala., have pushed for the most aggressive expansion. Hook, which opened its first center in 1977, now has 10 while Harco, which opened its first home health store in 1975, now has six.

Their aggressiveness has since encouraged others to try the concept, and today some of the nation's biggest chains, including Walgreens and Jack Eckerd, are testing a handful of convalescent aids stores.

Thirteen major drug store chains now operate freestanding home health care chains.

Leading drug chains operating home health care centers

Name of chain	Corporate headquarters	No. of home health care centers
Hook Drugs Inc.	Indianapolis	10
Harco Drug Inc.	Northport, Ala.	6
Begley Drug Co.	Richmond Ky.	4
Medicare-Glaser Corp.	St. Louis, Mo.	1*
Peoples Drug Stores Inc.	Alexandria, Va.	2
Genovese Drug Stores Inc.	Melville, N.Y.	1
The Walgreen Co.	Deerfield, Ill.	3
Thrift Drug Co.	Pittsburgh	1
Jack Eckerd Corp.	Largo, Fla.	3
Happy Harry's Pharmacies	Newark, Del.	1
Dunnington Super Drug Inc.	Brockton, Mass.	1
Tiffany Davis Drug Co.	Eugene, Ore.	1
Big B Inc.	Birmingham, Ala.	2

*Scheduled to open in early May

Source: *Drug Store News* survey

Chain executives are quick to point out that the market for home health care products is estimated to grow to close to $17 billion by 1990. Currently the market is estimated at about $4 billion.

Several of tne chains who first went into this market back in the 70's said they felt compelled to make the move because they could see the need for this type of service emerging in and around the pharmacy sections of their existing drug stores.

"We had one customer who needed a hospital bed," says Ron Attaway, a spokesman for Harco Drugs. "We ordered the bed and some other sickroom supplies and it mushroomed from there.

"Before we knew it the demand for health care products was strong enough for us to open a separate store."

According to Bob Begley, chairman and president of Begley Drug, which has four home health care stores, it costs a typical patient about $6,000 to stay one month in a hospital, about $1,200 to stay a month in a nursing home, but just $250 to receive a month's care at home.

"Institutional care," says Begley, "is becoming unaffordable for millions. Couple that with the fact that by the year 2000, one-third of our population will be over 65, and you can see the opportunities for home health care."

Different settings

Most of the chains in the home health care business carry the same types of goods in settings that range from the distinctly clinical to the relatively warm (the products are merchandised in settings that simulate the home environment: bathrooms with towels, bedrooms with curtains, etc.)

The basic mix includes durable medical equipment like hospital beds, wheelchairs; stair gliders; orthopedic appliances; diagnostic aids, incontinence products, ostomy supplies and appliances, surgical supplies, exercise equipment and supplies for physicians and nurses.

Many of the chains do what they've always done in setting a store: they try to match their mix of product to the needs of the neighborhood.

"We try to stock our home health care centers by determining the needs of the area they serve," says Jim Caldwell, assistant vp, health care services for Hook Drugs.

"It all depends on the needs of the physician and the hospitals in the area."

Going to the doctor

Begley's first step in merchandising his store is "to establish reference sources by having store managers call on doctors in the area." The managers are also asked to call on nursing homes, health spas, physical therapists in the area and anyone else who can get the word out on what the store is and what it can provide to a patient with a medical problem.

"We're also set up in store displays on products like ostomy and at the same time we'll reduce the price about 10%," Begley said. "We also advertise our promotions on the radio and in the newspapers."

Although the typical chain home health care convalescent aids store is small, 2,400 sq. ft. or less, inventory investments are quite high ranging from between $100,000 to $400,000 per store.

Stores doing a major portion of their business in rental equipment are forced to carry heavy inventories. "In the first few years, the costs of inventorying can be rough," says one manager of a high-volume convalescent aids store, "but after you pay off that investment, you really start to make money."

Almost all home health care stores do a strong business in ostomy, but a chain like Harco also reports a booming business in high-ticket respiration therapy equipment such as oxygen concentrators which sell for $1,200 to $1,400. Hook does an active business in stair gliders and in nutrition (one of its fastest-growing departments).

Almost all the chains which move into this category feel they are enhancing their health image by being associated with home health care centers.

Harlan Steinbaum, president of St. Louis-based Medicare-Glaser, a chain that has just recently diversified into home health care stores, says his new 3,500-sq.-ft. convalescent aids store will help round out Medicare-Glaser's total health care image.

Although the typical home health center is quite small, the investment in inventory is usually high.

"We want people to think of Medicare-Glaser as their one-stop health care center," says Steinbaum. "We are becoming more and more health-oriented all the time."

Costs of institutional care spur mkt.

Industry sources indicate that by 1990 sales of home health care related products could soar to an estimated $16.6 billion, nearly half the current sales for today's retail drug market. While many factors are responsible for this rapid growth, economics seems to be the driving force.

Changes in Medicare reimbursements to hospitals now provide for a fixed-fee payment, based on a diagnosis rather than a per diem payment as in the past.

This predetermined fee covers 467 categories based on diagnosis, patient's age, usual and customary treatment procedures, and complications if they exist. Shorter hospital stays and emphasis on continuing care at home are the bottom line.

In a study conducted by The Home Health Care Pharmacy Services Division of The National Association of Retail Druggists, it was revealed that when home health care is used as an alternative to institutions, payments from private medical insurance programs "drop precipitously, from average daily payments of $130 down to $15 according to one state's analysis for Blue Cross coverage."

Another contributing factor to the home health care boom is the graying of America, or increased longevity.

The number of persons 65 years or older has grown dramatically over the past decade. But more astonishing is the number of persons 85 years or older, who, according to the NARD study, are growing at an even faster rate.

"About $100 billion of the nation's total health care bill of $300 billion is spent on these age groups," says the study. Furthermore, the study points out that another cnsequence of spiraling hospital costs is that "people ineligible for Medicare and inadequately insured find institutional care unaffordable. They opt for home health care when there is a choice."

The NARD study also reports that "home health care marketing leaders, among retail pharmacies, do between 30% and 60% of their volume in home health care product categories."

1984 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

More chains try deep discounting

The lure of sales volume as high as $25 million per store enticed eight of the top 25 drug chains to venture into the deep-discount drug business during 1983.

This was a departure from the entrepreneurial flair associated with this type of low-margin, high-volume business pioneered by such figures as Bernie Shulman, Fred and Margaret Chen and Marc Glassman. These operations were usually family affairs, where everyone worked long hours to build tremendous volume.

The original F&M, a tiny 4,500-sq.-ft. store in Ferndale, Mich., pumped out as much as $10 million per year, or upwards of $2,200 per square foot.

Now with chains entering the arena, deep-discounting should swell to a cumulative sales volume of $14.5 billion by 1985. Already, these retailing behemoths produce about 2% of the total chain drug store business.

What has made this business appeal to drug chains? For one thing, a deep-discounter can generate in one week the volume that it takes five months to reach in a conventional store. Moreover, the return on investment is greater than that of a typical drug store, once the unit hits the magical break-even point—around $3 million to $4 million. Finally, chains see deep-discounting as an opportunity to diversify or beat the competition in hotbed markets.

Potential pitfalls

But, as Sonny Raichlen of Cecille's, a deep-discounter in Birmingham, Mich., and Phil Wilber, the originator of the franchised Drug Emporium concept, point out, there are pitfalls. Raichlen warns of the high inventory costs—often $1 million and more—as well as the need to move swiftly and precisely. These are both reasons entrepreneurs have fared well in this tricky business.

Phil Wilber adds that the volume figures don't come without hard work. "There's no magic to this business . . . you can't do it without hard work and sweat." Wilber attempts to keep the entrepreneurial spirit present in Drug Emporium by franchising rather than running a chain-like operation.

Despite the potential snags, 1983 marked the year that more drug chains ventured into this form of retailing. Each chain did it in its own way and for its own reasons.

Perry Drug, for instance, opened its first A. L. Price store as a reaction to an incoming F&M. Its second A. L. Price unit, however, was planned and opened in a site where two other competitors—Arbor and Revco—already had conventional stores in place. Its third A. L. Price store will open in an off-price shopping center. Its second store is already exceeding projections and should hit $6 million in its first year of operation.

Other chains played it differently—leap-frogging into new markets rather than cannabilizing its core markets. Wal-Mart, for example, opened its first deep-discount store, called Dot, in Des Moines—miles away from its headquarters in Bentonville, Ark., and miles away from any existing Wal-Mart units. A second Dot store is scheduled for Oklahoma City.

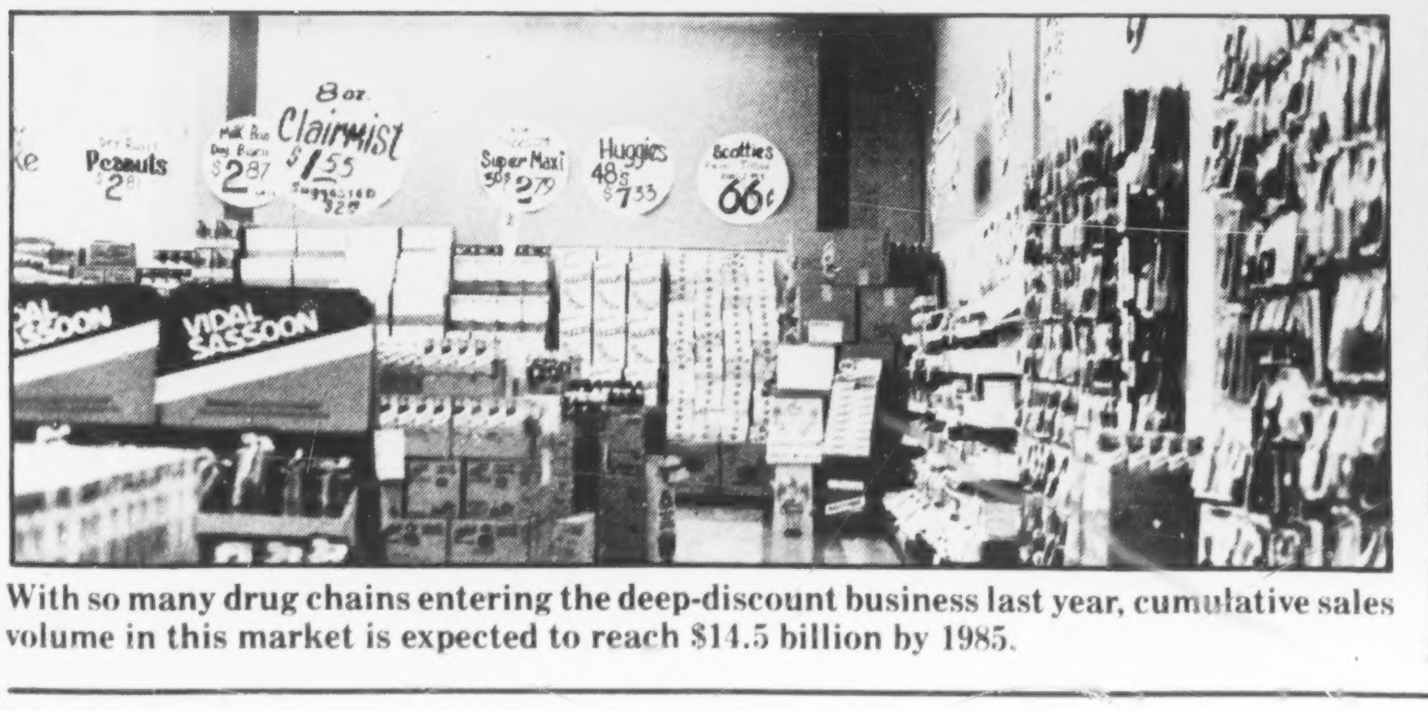
Best chain job

Revco is another chain that migrated to another town to debut its Get It For Less units. Chain drug sources say that Revco has "done the best job by a chain" with its deep-discount entry. Get It For Less stores resemble Drug Emporiums, but also incorporate merchandise from Revco's other venture, Odd Lot Trading. Says Sidney Dworkin, president and ceo, "Odd-Lot merchandise in Get It For Less is making it possible for us to realize break-even point much sooner than we anticipated."

Revco will open another Get It For Less this year and may open a third because "our early results are so promising."

One president of a deep-discount operation believes that testing the waters outside of the home markets is the smart way to enter the business. "Then, you're not competing with your own stores."

Others add that it is only natural that drug chains want to delve into the business, but they predict a "shakeout." Among the chains that either opened or announced plans to open units in 1983 were: Peoples, Perry, Shoppers Drug Mart, Fay's, Genovese, Medicare-Glaser, Pathmark and Wal-Mart. Chains already operating discount units include: Rite Aid, SupeRx, Gray, Heartland, Courtesy, Ribordy, May's and Safeway.



With so many drug chains entering the deep-discount business last year, cumulative sales volume in this market is expected to reach $14.5 billion by 1985.

Chains Join the Ranks of Deep Discounters

Name and Headquarters	Owner	Major markets	Franchised units	Total units
Drug Emporium **Columbus, Ohio**	Phil Wilber (originator of franchise)	Jacksonville, Tampa, Orlando, Fountain Valley, San Diego, Tucson, Minneapolis, Atlanta, Columbus, Indianapolis, Kansas City, Seattle and Phoenix	22	34
F&M **Warren Mich.**	Private investors Bill Edwards president	Detroit, Chicago, Indianapolis, Grand Rapids and Toledo	0	14
Rock Bottom **Port Washington, N.Y.**	Courtesy Drugs	Long Island and Metro New York	0	12
Heartland **North Billerica, Mass.**	Purity Supreme's Pharmacity division	Massachusetts, Connecticut and Maine	0	9
Warehouse Way **Detroit**	Chatham Supermarkets	Detroit	0	7
Warehouse Drugs **Fort Mitchell, Ky.**	Mi-Lo Inc.	Kentucky	0	7
DFL **Los Angeles**	Safeway	Dallas and Oklahoma City	0	5
Castle Drugs **Chicago**	Castle Distributors Andy Anderson Lowell Edelson	Chicago, Florida and Oklahoma City	1	4
SuperXtra **Cincinnati**	SupeRx	Columbus	0	3
Drug Palace **Shiremanstown, Pa.**	Rite Aid	Ohio	0	3
Marc's **Cleveland**	Marc Glassman	Cleveland (purchased Shulman's last year)	1	3
Jax **Cleveland**	Fisher Foods	Cleveland	0	2 (with plans for 1 more)
A. L. Price **Detroit**	Perry Drug	Detroit area	0	2 (with plans for 1 more)
Freddie's **Rochester, N.Y.**	Freddie Silverman	Rochester, N.Y., and Boca Raton, Fla.	0	2
Shulman's **Florida**	Theresa Shulman	Florida	0	1
Get It For Less **Twinsburg, Ohio**	Revco	Memphis	0	1 (with 2 scheduled)
Ike's **Memphis**	Malone & Hyde	Memphis	0	1 (with 2 scheduled)
Cecille's **Birmingham, Mich.**	Sonny and Cecille Raichlen	Birmingham, Mich.	0	1
Gray **Cleveland**	Gray Drug Fair	Cleveland	0	1
Jote's **Cleveland**	Jody Fazio	Cleveland	0	1
R-Way **Valparaiso, Ind.**	Ribordy Drug	Valparaiso	0	1
Right Price Drugs **Omaha**	Keystone	Omaha	0	1
Pete 'n Larry's **Buffalo, N.Y.**	Peter Spallino Larry Boni	Buffalo	0	1
Drug Warehouse **Tulsa**	May's Drug	Tulsa	0	1
Drug Castle **Springfield, Ohio**	Drug Castle	Springfield (1 planned in Florida)	0	1
Best Buys **Melville, N.Y.**	Genovese	Levittown, N.Y.	0	1
Dot **Bentonville, Ark.**	Wal-Mart	Des Moines, Iowa	0	1
Howie's **Willowdale, Canada**	Shoppers Drug Mart	Toronto	0	1
Super Drug **Toronto**	Super X Drug	Toronto	0	1
Drug Outlet **Toronto**	Jack Austin Drug	Toronto	0	1

Source: *Drug Store News* survey

PERFORMANCE 1984 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Exec changes in high places

Major changes at top executive levels had a significant impact on drug chain management during the past year. In an effort to address a variety of business concerns, leading chains turned to seasoned execs both within and outside their companies to redefine objectives and to revitalize established growth paths.

Alvin Towle, a well-known figure in the industry, took the challenging helm of Gray Drug Fair in January 1982 and had completed a sweeping management reorganization when he was "relieved of his responsibilities" in October 1983 by Sherwin-Williams, the parent company. Although sales were up and Towle's rebuilding efforts were gradually progressing, his performance apparently fell short of goals agreed upon when he joined S-W.

Alvin Towle

Less than six months later, however, Towle, whose track record also includes such key positions as vp-general merchandise manager at Eckerd Drug, senior vp-marketing at Peoples and president of Shoppers Drug Mart's United States operations, was hired by Dart Drug to guide its 73-store, Washington, D.C.-based retail drug division. In addition to providing a strong link in Dart's "stretched thin" management team, Towle will direct his expertise to several operational problems that have persisted in the drug division despite a strong overall performance.

In another major move, Eckerd Drug Co. appointed Harry W. Lambert as president in August 1983. Like Towle, Lambert is an aggressive and experienced manager who is credited with much of the recent turnaround of JByrons Eckerd's department store division, which he had headed since November 1978. As a 14-year veteran of Eckerd Corp., Lambert has held a number of other positions including controller, president of two divisions and vp of planning for the drug division.

The managerial and interpersonal skills Lambert utilized so effectively at JByrons have already given a much-needed boost to Eckerd Drug, which just completed the most successful first six months in its history.

Harry W. Lambert

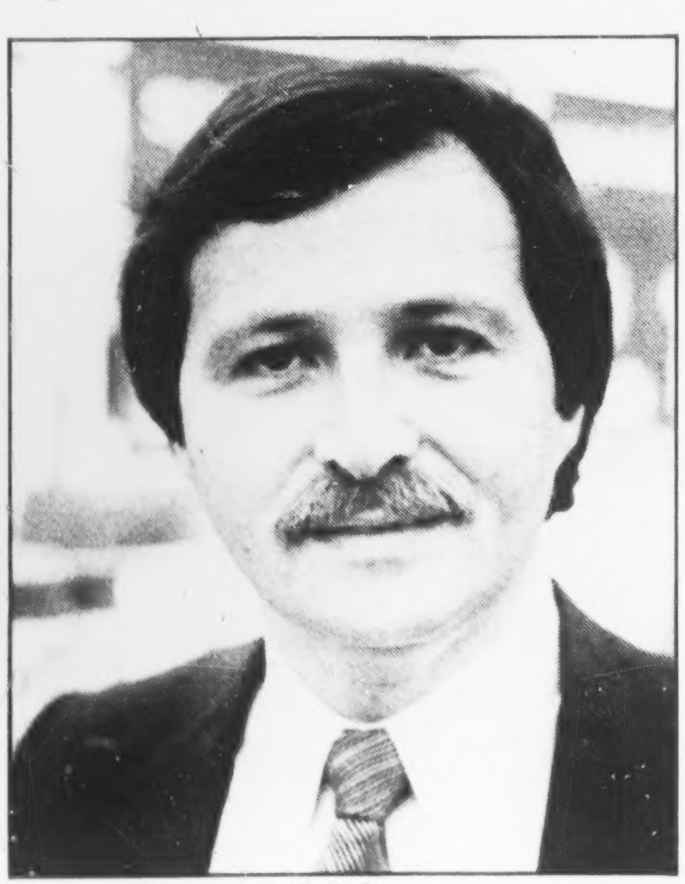
Earlier in the year, David Bloom became president and ceo of Shoppers Drug Mart, owned by the Canadian-based Imasco Ltd. At the time of his appointment in March 1983, Bloom was slated to spearhead a progressive expansion program aimed at doubling the chain's store count and sales by 1990. With Imasco's recent acquisition of Peoples Drug Stores, the results of this effort have become apparent.

Another top exec position was claimed by Larry LaRock who became president of Rea & Derick after one year as their vp and general manager. Prior to that, LaRock had worked for 21 years at the Skaggs Cos.

At the National Association of Chain Drug Stores, Vincent R. Gardner was chosen to head the new Pharmacy and Health Affairs Department. Harold J. Klawitter, formerly vp-professional services at Gray Drug Fair, also joined the department, which is a consolidation of two former departments—pharmacy affairs and health programs.

Management changes

In addition to Towle's departure from the top executive spot, Gray Drug Fair experienced a number of management changes last year. Joel Arnold was named senior vp of operations and Phil Lagnese regional director of operations. Jim Mastrian became regional director of marketing—mid-Atlantic—and both John Kuhn and Randy Schulkers moved into merchandise manager slots.



David Bloom

Gray also announced several shifts in executive responsibilities including Richard Landers to director of visual marketing, Robert Morick to director of H&BA and cosmetic purchasing, John Mirmelstein to merchandise manager for H&BA and cosmetics and for Irwin Livon, who is vp of professional services, the additional task of overseeing purchases of pharmaceuticals and OTC drugs.

At SupeRx Drug, Anthony Fanticola assumed responsibilities as director of merchandising, while George Dozier and Dave Wesloh became merchandise managers.

Fay's Drug initiated several managerial changes including the appointment of David Panasci as vp of real estate and Jim Wuest as merchandise manager.

Heading up the Tiffany-Davis management team in 1983 was Kristy Delaney, who was named president and general manager.

At Eckerd's Rac/Rite division, Bill Campbell was appointed director of merchandising and Zolt Selos merchandise manager. On the vp level, Bob Ramsey added the distribution area to his data processing responsibilities and Bob Smathers became Florida division manager in addition to his post as vp of finance and operations.

Carroll Hudson

Later in the year, Eckerd's Don Perfetto became vp/controller and John Boyle senior vp of finance and administration. Additionally, Gilbert Boenig was named vp, Curt Neel vp of distribution and Joseph Crider manager of the Florida division.

New personnel

As a result of a division of operations at Red Owl/Snyder, Donald Beeler became president of the Snyder division. Rounding out the management team were Gary Hawley as vp and chief financial officer and Bill Vidmar as vp of merchandising and marketing.

Revco announced the appointment of Neil Roth as assistant vp of purchasing and expanded assignments for two execs. Marc Dworkin became executive vp for operations and marketing, and Carroll Hudson executive vp for administration and finance.

Shoppers Drug Mart restructured much of its management in 1983. Herb Binder and Albert Krakauer filled executive vp positions and Brian Relph and Izzy Snyder were appointed vps of operations. Howard Trifler took over as national vp of retail development and, in the Southeast United States region, Allan Goldman became director of marketing and Joe Cote director of operations.

Robert Arensmeyer

At Walgreens, Wayne Roberts became director of marketing coordination, Dwight Iverson division merchandise manager and Dennis O'Dell manager intercom pharmacy operations.

In other moves last year, Samuel Ray was made vp of human resources at Perry Drugs. He was joined by Berl Falbaum who became director of corporate communications for Perry.

Dart Drug announced that Ben Kovalsky would assume responsibilities as executive vp of purchasing and advertising at Dart Drug and Trak Auto, while continuing as president and chief operating officer of Trak. Also at Dart, Neil Kaplan was named to senior vp of sales and Stephen Hansbrough to senior vp of distribution and data processing.

Rite Aid announced several appointments including Martin Gross as senior vp and Robert Buhrig as corporate vp and director of security.

William Harrison became chairman and ceo at Taylor Drug and Robert Mayer moved into the vice presidency of Taylor's management information systems.

Genovese Drugs announced two major moves—Al Wilent to vp and director of merchandising and Robert McCarthy to vp and director of human resources.

At other chains, Neil Roth became president at Carls Drug and Robert Arensmeyer moved into the executive vp slot at Peoples Drug. Rea & Derick appointed two vps—Charles Ortiz in operations and Bill Hatcher in marketing.

1984 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PERFORMANCE

Execs focus on chain challenges

Growth, productivity, competition, technology, changing consumer demographics—these are among the challenges facing top chain drug executives in the years ahead. Drug Store News *asked some of these execs to evaluate the impact of change in a number of areas, including future growth, technological advances, health care and product mix. Here are their observations.*

Harlan Steinbaum
president
Medicare-Glaser

I see technology assuming more prominence with computers in the pharmacy area and also at point-of-sale locations. By the end of the year, we will have completed the installation of pharmacy computer systems in all our stores, enabling us to provide patient drug interaction monitoring to all our customers.

I think all of us in the industry need to be vigilant in looking at the increased role of government in our businesses, making sure that we operate effectively with minimal government intervention.

Our company is looking forward to a year of continued profitability and plans are being formulated for the opening of several new stores in the near future.

Neil Roth
president
Carls Drug

The technological advances undertaken in pharmacy computers and state-of-the-art computer systems for purchasing and distribution will enable chains to serve customers with improved efficiency that will eventually end up on the bottom line. This, in turn, will increase the viability of drug chains in years to come.

Eli Cohen
president and ceo
Duane Reade

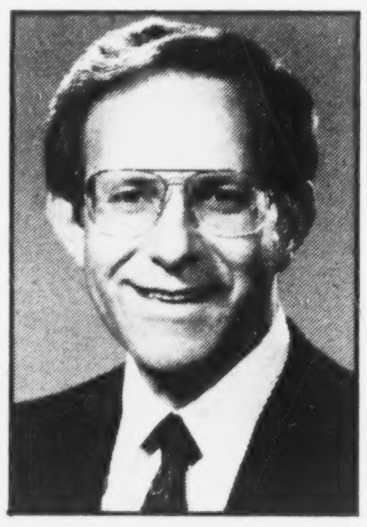
As a New York chain, our problems and perspectives are somewhat unique. Strategies that work for national chains might not necessarily work for us and vice versa. But in 1983, there were two areas where I think we made some significant discoveries. One was new products where I believe we saw the birth of a whole new category: mousse. Just by putting that product on display in our windows and on an endcap, we moved thousands of dozens in just a few weeks. It was the best new product I've seen in 20 years. With 20 stores, we moved three truckloads.

The other critical breakthrough for us was in security. For this fiscal year, we are investing $360,000 in the Checkpoint security system and although it's a major investment, we're anticipating saving millions.

Just this past Christmas quarter alone, we sold three times more fragrances then we normally have for the period and twice as many personal appliances.

We put the Checkpoint tag on each fragrance and personal appliance product and moved them out from behind the service desk onto the endcaps. We always felt we could sell more product if we made these items self-service, but we didn't dare do it before because of shrink. I can't tell you exactly how much our shrink went down, but I do know we sold more fragrances and personal appliances than ever before in our history. We also caught more shoplifters then ever before.

Jack A. Robinson
chairman and ceo
Perry Drug Stores



As we look toward 1985, I think the drug store industry will face additional pressure from increasing competition not only from within the industry itself but from outside as well.

We will have to be very much on guard and develop new methods of merchandising to compete effectively against this very aggressive competition. Perhaps more than ever, we will have to put our ingenuity to the test.

So I see competition as a key issue for the next few years, but I feel very confident, given the managerial, merchandising and other talents within the industry, that we will respond effectively.

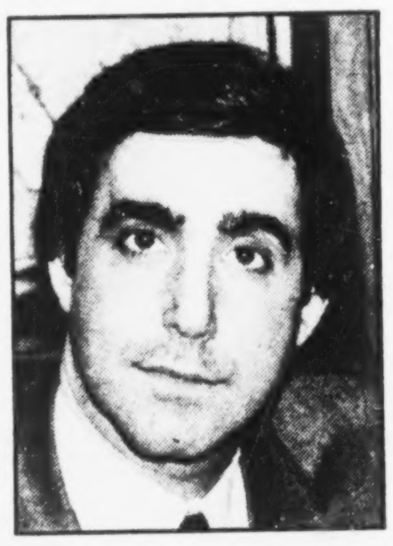
Leonard Genovese
chairman and president
Genovese Drug Stores Inc.

Merchandising, coupled with technology, will be the key to future success. Technological advances will enable us to get a better handle on our industry and, I suspect, that we will work smarter, not harder.

There will be better cost justification with the new systems and we'll become more knowledgeable merchants as computer terminals, in areas such as the pharmacy, provide the opportunity to exercise an increasing number of important controls across the board.

> The development of food and drug combos will continue to be explosive.
> —Denis Ribordy, Ribordy Drugs

James Salmanson
vp marketing
Adams Drug Co. Inc.



In most cases, the progressive drug chain has many ways to grow. The real estate market has opened up in the past few years and there's been a continued emphasis on remodeling and updating among the chains. I see great growth potential in the addition of pharmacies to the health & beauty aids area, and I believe that our resources and our ability to develop other forms of retailing related to the product mix in drug stores will create tremendous growth for our industry in the future.

Denis Ribordy
president
Ribordy Drugs

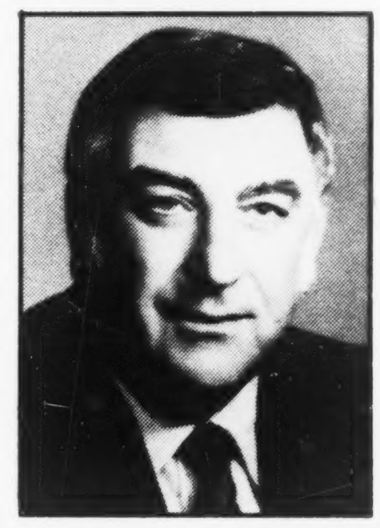
We'll certainly see growth over the next decade, but I don't think it will be quite as fast-paced as what we've witnessed over the past 10 years. Some areas, like the development of food and drug combos, will continue to be explosive. Others, such as specialty shops and mini-combos, will definitely claim a strong place in the market as will the traditional strip centers with their conventional supermarkets.

The technology emerging in our field is mind-boggling. Total pharmacy computerization will be the norm, and the information captured by point-of-sale scanners will ultimately be so quick and so thorough that much of the drudgery and time-consuming nature of information gathering will disappear. We'll all become better managers as a result.

Government regulations will definitely be an area to keep a sharp eye on. The controversy about health care costs will heat up and drug chains will be caught in the middle of it.

I think the basic philosophy of merchandising—to get into new areas whenever possible—will hold true in the coming years. The more lines we carry, the more dollars per family we can count on. There are and will be tremendous areas of opportunity for our industry, but we'll have to be cost-conscious and we'll have to hustle.

Sheldon W. Fantle
president & ceo
Peoples Drug Stores Inc.

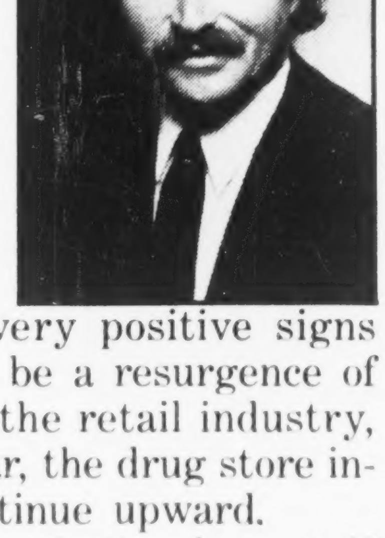


The coming year looks like another good year for retailers, and we think the chain drug industry is still on the leading edge of retailing. Particularly significant, I think, is the recent Dun & Bradstreet study which forecasts a total retail growth of 32% between 1982 and 1986. Drug and proprietary stores are the foremost category shown with a projected 45% growth, slightly ahead of mail order retail's 43% projection.

There is no question that the growing senior citizens market is creating a beneficent cycle for us retailers who have close ties with this powerful segment of the consumer population.

> Technological advances will enable us to get a better handle on our industry.
> —Leonard Genovese, Genovese Drug Stores

David R. Bloom
president and ceo
Shoppers Drug Mart



The economic recovery that began last year in Canada appears to be continuing and is gathering some momentum in certain sectors of the Canadian

We foresee very positive signs that there will be a resurgence of confidence for the retail industry, and in particular, the drug store industry will continue upward.

Continued on page 77

Technology is one key to growth

Continued from page 75

At Shoppers Drug Mart, we are focusing our attention on three particular areas this year.

Firstly, productivity. We regard productivity as a state of mind, a way of life and a philosophy of business. It is an absolute strategy for survival and growth and we are committed to applying it to every aspect of our business.

Our second focus is on our customers. We have developed a specific program known as "Customers Are Really Everything," or "C.A.R.E." Our commitment at the corporate and store level will be to place an even greater emphasis on our customers' needs and requirements, and continue to deliver on the value and service statement that has been the formula of success.

And finally, our focus is on the continued importance of our profession. We are drug stores first and foremost, and our pharmacists have an important role to play in society. At Shoppers Drug Mart, we played a key role in introducing the "Pharmacists Against Drug Abuse" (PADA) program in Canada, and our commitment is to ensure the successful implementation of that campaign.

F. F. Canning
president and coo
Walgreens

In 1984 we'll see Walgreens continuing its commitment to computerizing information systems, which are becoming increasingly important to efficient retail operations.

Computers already have changed the way Walgreens operates. Several years ago we began upgrading our material handling systems. Last April we opened our third major distribution center in as many years.

All the new centers use state-of-the-art computer technology and this year we allocated $10 million for wide-scale renovation of our older warehouses in Houston and Memphis. Our investment in new warehouse technology has been well worthwhile—unit distribution costs have decreased while service has increased.

Last year we completed chainwide installation of our computer-pharmacy system, Intercom. The result has been increased efficiency, productivity and customer service at the pharmacy counter. This year we are further expanding store communication capabilities with installation of computer terminals in store offices.

By the end of the calendar year we hope to have all Chicago-region store managers and bookkeepers using our new 'on-line' store administration system, which ties into store cash registers. As we did with Intercom, this system will be installed on a district-by-district basis until all stores are part of a total Walgreen store administration network.

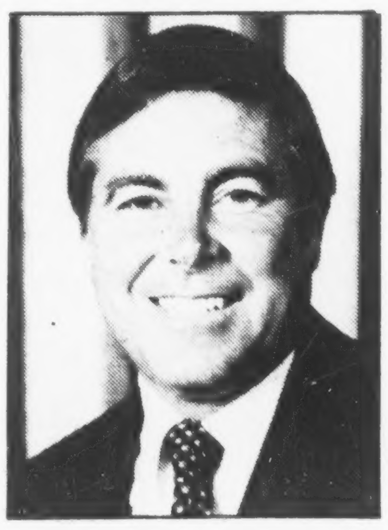
> Our investment in new warehouse technology has been well worthwhile.
> —F. F. Canning, Walgreens

Robert M. Long
president & ceo
Longs Drug Stores Inc.

An important issue facing us in the coming year will be the interfacing of personnel with computers at the store level. We regard the utilization of computer technologies to be of great importance as a contributing factor to our future success. We have, in fact, already committed significant resources in time and money toward this end.

Because we operate on a decentralized basis, our interest is not in exerting more control over our stores by utilization of a computer system. Rather, we are concerned that our store personnel find the computer applications easy to use, that installation and training create as little disruption as possible to normal store operations and that increased efficiencies and productivity be the end result. In essence, we want our already well-qualified personnel to regard computer technology as an additional tool for their use and our mutual benefit.

Gerald L. Wolken
president
SupeRx Drugs



In 1984 we're going to design and execute our plans better. We're going to be re-examining our product offerings because we feel that you have to compete not just with other drug companies today, but with the total universe of retailers. It's really a mixed bag out there. Consumers will respond to nontraditional drug store items.

The challenges before us today are competitive in nature. We face more intense and varied competition. In 1983, we finished placing nearly all of our stores on our distribution system and that will enable us to benefit from lower costs in 1984. We've also seen the maturity of a number of stores that opened two years ago, and that will also contribute to our improved performance.

But many of our stores are in markets where economy is only now beginning to recover, and because of that we haven't developed all of the momentum we had hoped to achieve, but we're beginning to see that momentum develop now, and expect 1984 will be an outstanding year.

I don't expect to see radical changes in store sizes, but we will see changes in store layout, planograms and changes in the various commodity groups. Of course, this will lead to changes in advertised item selection and presentation.

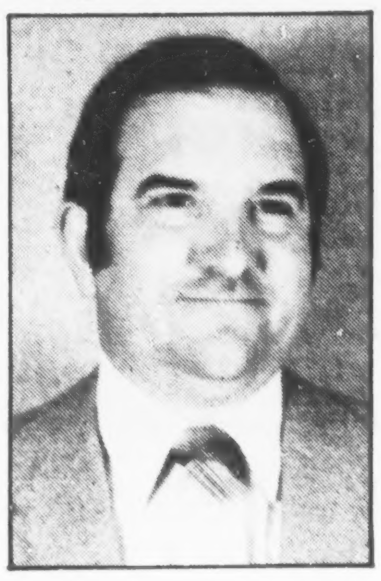
Alex Grass
chairman, president and ceo
Rite Aid Corporation

Chain drug progress has been very impressive and I'm optimistic in terms of drug store sales. The Department of Commerce states that for the 1982-83 period, chains with 11 or more stores increased their share just over two percentage points to 55.5% of total drug sales.

This is the largest reported jump and confirms the trend line that has demonstrated an unabated rise for the past 20 years. I believe that share will continue to increase at least one percentage point per year for the foreseeable future.

I'm also optimistic about trends in prescription usage. It has been predicted that the 65-and-over age group will grow two times as fast as the rest of the population and will reach the 35 million mark by the year 2000. The 75-and-older age group is also expected to rise by over 70% within that same time period.

Don Beeler
president
Snyder Drug Stores



One of the major concerns that I see facing the industry is third-party programs: How are we going to handle them and how are we going to make money on them?

We're also conscious of the trend to diversification. We're looking at the one deep-discount store we opened four years ago, Country Drugs, and we're considering the possibility of expanding it to additional markets, maybe even developing a program that would be available to retailers in our independent retail program. It is hard to make deep-discounting work in our home market, however. We have to compete against one of the strongest grocery deep-discounters in the business, Cub, and they are very aggressive in discounting H&BA. So are our own Red Owl Country stores. So is Target. This is their home market too.

I think what our industry is seeing today is a very broad diversification of the drug store concept, and you are seeing a lot of people finding their niches.

Perry Drug is doing a very good job with automotive. We're doing well with convenience foods and with beer, wine and liquor. Retailers are starting to try to understand what their customers need and want, and they're making every effort to give them those things.

You can also see more of a trend to electronic advertising. We're moving that way. We're trying to reach the younger shopper, people aged 24 to 34, and many of them just don't read so you can't just rely on newspapers.

Robert Begley
chairman and president
Begley Drug Company

The chain drug industry has gone in so many directions recently that it will probably be necessary, in the future, to specify exactly what we mean by "chain drug." Increased activity on the part of mass merchandisers and the emergence of the warehouse-type store have changed our field dramatically and promoted significant growth and expansion in several areas.

One of these is the home health care center. Our company presently operates four of these centers and plans have been made to install four or five more in the near future.

Another area to watch is the convenience food and drug store or the mini-combo. This type of outlet is really in its infancy state right now, but, in both its strip and freestanding formats, it will certainly be an important factor in days to come.

With the recent changes in chain drug ownership, I think that the next 12 to 24 months will also see an increase in mergers and pure acquisitions.

As a whole, the chain drug industry is really growing up.

PRODUCTS

1984 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Computer's power sparks chain sales

With pharmacy leading the way, chain drug stores recorded a strong year in 1983 as sales rose 11% to $22.8 billion.

It was a year in which more and more chains began to use the power of computers to aid them in their marketing strategies.

The emphasis was on the core departments and on building the strongest possible health care image. In that, the chains looked to set themselves apart from their food and discount store competitors.

The following is a breakdown of the performance of those key drug store departments.

Breakout of 1983 chain drug sales

Department	Total chain drug $ volume	% of increase	% of total sales	Gross margins	Avg. no. of turns
Prescriptions	$5,947,381,000	+13.6	26.1	35% to 40%	6.5
Drugs/Proprietaries	3,185,045,000	+12.3	14.0	30% to 35%	5.0
Toiletries	2,403,497,000	+11.6	10.5	25% to 30%	5.0
Cosmetics	1,194,945,000	+12.2	5.2	35% to 40%	2.2
Stationery	1,053,262,000	+12.1	4.6	40% to 45%	4.5
Tobacco	1,814,672,000	+ 9.6	8.0	15% to 20%	15.0
Candy	782,948,000	+12.5	3.4	25% to 30%	5.5
Housewares	1,480,002,000	+ 7.3	6.5	35% to 45%	3.0
Toys	623,580,000	+ 6.4	2.7	35% to 40%	4.0
Photo	959,618,000	+11.3	4.2	20% to 25%	9.0
General Merchandise	1,101,974,000	+ 9.0	4.8	35% to 45%	5.0
D-I-Y	533,049,000	+ 6.1	2.4	35% to 45%	3.0
Grocery/Liquor	1,127,773,000	+ 7.7	4.9	15% to 20%	12.0
Misc./Promotional	610,423,000	+11.5	2.7	15% to 20%	N/A

Source: *Drug Store News* survey

Prescriptions—The rising price of the average prescription as well as an increase in the number of scripts pushed chain drug pharmacy sales up 13.6% to a new high of almost $6 billion last year. As the Consumer Price Index for pharmaceuticals outpaced the overall CPI by almost 3 to 1, the price of the average script rose 95¢ to $10.60 in chain drug stores.

Drugs/proprietaries—Rx to OTC conversions helped propel 1983 chain drug sales in this department upward by 12.6% to $3.2 billion, second only to pharmacy. Leading the way in sales growth were analgesics, cough/cold, eye and lens care and family planning products. There was also a strong rise in home health care sales.

Toiletries—Driven by strong sales of ethnic products, shampoos, deodorants and suncare products, chain drug toiletry sales rose 11.6% in 1983. Many chains recognized the potential of the ethnic health and beauty aids market last year and either added new ethnic departments to their stores or expanded existing ones. As a result ethnic sales grew 14.5% to $152.7 million. Shampoos also turned in a strong performance last year as sales increased 13.4% to $260 million in chain drug stores.

Cosmetics—Drug chains upgraded their cosmetics mix, promoted more aggressively and were in a better in-stock position on hot items last year. Retailers were rewarded for these efforts as cosmetics sales soared 12.2% to $1.2 billion—the largest sales increase in five years. Even more noteworthy was the fact that drug chains accomplished these results while the entire industry growth rate was only 4%.

Stationery—Strong sales gains in greeting cards, school supplies and home office products powered the stationery department to a 12.1% increase in 1983. School supplies and home office products turned in the strongest performance as sales grew 14.1% to $271.2 million. Larger, upgraded departments helped contribute to the 12.2% increase in greeting cards sales, which reached $352.8 million in 1983.

Tobacco—While statistics indicate that fewer people are smoking, tobacco continues to be the fastest turning category in the chain drug mix. The average tobacco department turns 15 times a year and cigarettes turn at an even faster rate. Overall chain drug tobacco departments rang up sales of $1.8 billion, up 9.6% from the previous year. Tobacco contributed 8% of total chain sales last year.

Candy—Candy sales made a healthy recovery from the Halloween product tampering scares and were back to a $783 million level last year, a 12.5% increase over 1982. Bagged candy, the most popular during Halloween, contributed the greatest per cent of sales in this category—almost $300 million, a 13% increase over 1982. Candy makes up 3.4% of total chain drug sales.

Housewares—Chain drug stores recorded a steady 7.3% sales increase in the housewares category last year to $1.6 billion. Consumers traded up for better quality plastic and rubber housewares, kitchen accessories and outdoor furniture. Leading the department again were plastic and rubber housewares. Retailers attributed the strong 7.4% gain in this category to increased promotional activity and changing consumer lifestyles. Sales of plastic and rubber housewares totaled $368.7 million and accounted for 23% of total category sales.

Toys—High tech electronic toy sales crashed last year, opening the door for a resurgence in sales of such traditional toys as dolls and board games. Overall category sales reached $623.6 million, a 6.4% improvement over the previous year. While drug chains still account for only a small slice of the total toy market, indications are that manufacturers are seeking additional distribution channels such as drug stores.

Photo/including processing—This category continues to be a successful one for drug store chains with sales increasing a healthy 11.3%. Photo remains strong because items, which have gross margins of 20% to 25%, turn nine times a year. The ever-popular photo finishing services along with the new additions of upscale 35mm cameras and related products helped this $960 million category make up 4.2% of total chain drug sales in 1983.

General merchandise—General merchandise sales rose 9% to $1.1 billion as chains continued to offer an appealing mix of products along with a range of price points. Small personal care appliances, such as blow dryers and electric razors, remained on top with the greatest percentage of sales in the category, $203 million or 18%. General merchandise makes up 4.8% of the total drug store sales.

Do-it-yourself—Faced with increased competition from high volume home centers and discount auto parts chains, sales gains in the DIY category slowed somewhat last year. Chain drug stores recorded a 6.1% increase in DIY sales to $533 million. Once again, the automotive segment was the DIY department leader as chains registered a 7.9% increase in 1984 to $156 million.

Grocery/food/liquor—Led by a strong performance by alcoholic beverages and snack foods, the food and liquor category generated a sales gain of 7.7% to $1.1 billion last year. Liquor and wine accounted for nearly 50% of the department's total volume as sales advanced 8.3% to $531 million. Snack foods/cookies and nuts combined for nearly 16% of the department's sales in 1983. Snack foods such as chips and crackers and cookies produced sales increases of 7.8% with sales reaching $83.2 million, while nuts sales rose 7.9% to $91.8 million.

grocery & frozen food
17

PRESCRI PTIONS
1 day 1 day
PHOTO SERVICE
Color Prints
9¢ ea.

1983 Rx sales increase 13.6%

Rising script counts and higher prices pushed chain drug pharmaceutical sales to record heights in 1983. Dollar sales rose 13.6% to $5.9 billion in chains with four or more stores.

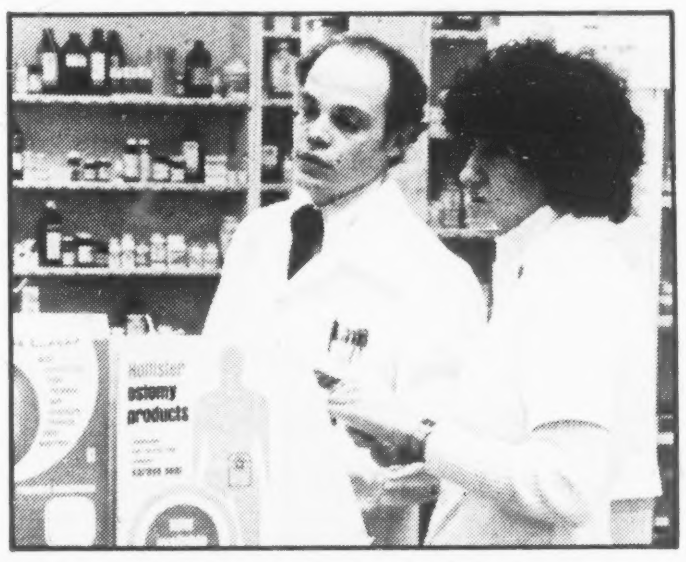
The price of an average script increased 95¢ to $10.60 during the year in chain drug outlets, and an average chain outlet dispensed 35,000 scripts.

New high-ticket products launched over the past several years continued to propel department gains during 1983. But the past year represented a trough for new products.

"Last year can't be called a record year for prescription product introductions, but a few new drugs reached consumers," said a professional director from a Northeast chain.

Drugs like Zantac, Lozol, Halcion and Bumex are, however, expected to grow in sales.

Prescription products introduced before 1983 also contributed to pharmacy department growth. Drugs such as Procardia, Zovirax, Xanax, Desyrel and Feldene were still in their growth phase and added significantly to departmental sales.



Although there have been fewer new prescription product introductions in 1983, chain drug stores reported record breaking prescription sales.

Higher counts

In addition to producing higher script counts, these relatively newer drugs also helped department revenue gains by increasing the price of an average script. Many of these newer drugs cost retailers significantly more than the drugs they replaced. As a result, the consumer price index for prescription medications continued to outpace the CPI for all commodities, which rose only 3.8%. The pharmaceutical portion of the index, however, climbed 9.6% from 192.7 to 213.8 during the past year.

Despite the gain in scripts and escalating prescription prices, retailers' bottom line growth was not forthcoming from their pharmacy departments. Indeed, statistics reveal that the cost of pharmaceuticals to retailers climbed by 16%.

Retailers said that hefty sales increases aside, their return on inventory investment for the prescription department continued to shrink. Margins aren't keeping pace with other departments' gains.

Audited information shows that added competition and slow-growing third-party fees have kept a lid on profits. For example, some of the leading brands that contributed significantly to retailers' sales growth were the same maintenance drugs which offered retailers margins of 15% to 20%.

Tied-up capital

For costly medications, pharmacies were forced to tie up increasing amounts of capital in inventory. "Lower-of" provisions written into some third-party contracts also produced a negative impact on retailer margins, locking pharmacies into reimbursement fees that ranged between $2.75 and $3.50 per script.

Retailers from associations representing drug chains and independent community pharmacies argued for the need to return to usual and customary pricing to provide relief. But their arguments have failed to persuade third-party rate-setters.

Generic pharmaceuticals also made their presence felt during the year. They now account for 20% of all prescription dollar volume. Factors contributing to growth in this market segment include programs by states like Maryland, which provided pharmacists an extra fee for dispensing a generic on Medicaid scripts.

Another approach used by Medi-Save Pharmacies also stimulated generic sales. At Medi-Save, pharmacists are paid 50¢ per script for dispensing a generic.

Industry analysts said these factors represent only a fraction of the impact that generics will have on the pharmaceutical market once the Abbreviated New Drug Application/Patent Extension issues are settled. A number of well-known products—Valium, Serax, Valisone, Diabenese, Motrin and Ativan—will be coming off patent over the next 24 months. As a result, they predict that sales dollar growth of generics will range from 10% to 15% over the next several years.

Other factors

In addition to new products and the increasing number of generics, there were other factors that helped prescription sales in 1983.

Among them: The continued aging of the United States population and the expansion in the number of physicians writing a large amount of prescriptions.

Other trends which affected the department include the switch of selected legend pharmaceuticals to over-the-counter status and the continuing effort by retailers, drug manufacturers and Government to communicate with patients about drugs.

F.D.A. initiated a consumer program which promotes pharmacists as an information source about drugs. Going a step further, Eckerd Drug tested a computerized phone answering service that provides consumers with information on a variety of drug categories. Revco distributed an education pamphlet advising consumers about arthritis. And Pathmark and CVS offered prescription price rebates via coupon to customers. The latter situation is under scrutiny by the U.S. Supreme Court, since the Board of Pharmacy in New Jersey doesn't allow price rebate promotions on pharmaceuticals.

Variety of programs

Manufacturers also used a variety of programs to get their messages to consumers. Boots advised the public of Rufen's price advantages over Motrin, while a number of other firms took a more conservative educational approach in their consumer directed messages.

Pfizer continued its "Healthcare Series" through booklets on arthritis and angina. And Roche promoted its "How-To Books" on drug treatment options, descriptions of disease states, and ways to improve health care.

Lederle used pharmacists in its Self Medication Awareness Test program designed to increase consumer consciousness about medications.

The Food and Drug Administration launched a study of consumer reaction to direct prescription drug advertising. Conclusions and recommendations weren't available at presstime, but retailer reaction to direct-to-consumer ads was generally negative.

Although the switch of prescription items to OTC status does lower prescription counts, most chain execs favored conversions because they mean higher volume and more profit dollars.

Prescription department summary

All drug stores

	1982	1983	% Change '83/'82
Consumer sales ($ millions)	$14,459	$16,330	+13.0
Scripts (in millions)	1,483	1,512	+ 2.0
Average Rx price	9.75	10.80	+11.0
Scripts/store/year	30,020	30,545	+ 2.0
Stores	49,400	49,500	

Chain drug stores

	1982	1983	% Change '83/'82
Consumer sales ($ millions)	$ 5,235	$ 5,947	+13.6
Scripts (in millions)	542	561	+ 3.0
Average Rx price	9.65	10.60	+10.0
Scripts/store/year	33,155	35,130	+ 6.0
Stores*	16,347	15,969	− 2.0

*Only chains with 4 or more outlets are considered in this total.

Source: *Drug Store News* survey

Total drug store market, 1983

	Scripts (millions)	% growth '82/'83	% share
Total Scripts	1,512	+ 2%	100.0%
New Scripts	760	− 1	50.3
Refill Scripts	752	+ 3	49.7

Source: *Drug Store News* survey

1983 New drug launches

After record-setting years for new drug approvals, the pace slowed considerably during 1983 as only 14 new chemical entities were cleared for marketing.

New agents approved and/or marketed during 1983 included six parenteral products, nine oral dosage forms, and three topical preparations.

Chemical name	Brand name	Usage
Acetohydroxamic acid	Lithostat	Adjunct in urinary tract infections
Atracurium besylate	Tracrium	Skeletal muscle relaxant
Bumetanide	Bumex	Diuretic
Cefitzoxime sodium	Cefizox	Cephalosporin antibiotic
Cefuroxime sodium	Zinacef	Cephalosporin antibiotic
Chenodiol	Chenix	Dissolution of gallstones
Ciclopirox olamine*	Loprox	Antifungal
Cyclosporin	Sandimmune	Immunosuppressive
Econazole nitrate*	Spectazole	Antifungal
Etomidate*	Amidate	Anesthetic induction drug
Etoposide	VePesid	Antineoplastic
Guanadrel sulfate*	Hylorel	Antihypertensive
Indapamide	Lozol	Diuretic
Netilmicin sulfate	Netromycin	Antibiotic
Praziquantel*	Biltricide	Antischistosomal
Ranitidine hydrochloride	Zantac	Antiulcer
Sodium cellulose phosphate*	Calcibind	Drug for hypercalciuria
Triazolam	Halcion	Hypnotic

*Approved by F.D.A. in 1982 but not marketed until 1983.

Source: *Drug Store News*

Cough/cold remedies top OTC sales

New OTC products, converted from prescription status, and a late breaking flu season boosted sales of cough/cold preparations in 1983 by almost 30% over 1982, propelling them into first place as the best-selling category of the drug store's proprietary department.

Many chain buyers pointed to a late flu season as the prime reason for cough/cold preparations grabbing a 14.6% share of total OTC department sales.

According to Len Demino, vp of professional services, Peoples Drug Stores, rapidly changing weather conditions were responsible for much of the increase in sales.

"This year's changeable weather was conducive to the flu," said Demino. "Our prescription and OTC sales were up as a result."

Walgreens reported that sales of their OTC cough/cold preparations were up 23.5% in January and in the first week of February sales rose 36.3% over the same period in 1982, in large part due to a two-month flu that hit the Chicago area.

But not all the chains felt that a flu was responsible for their sales.

In St. Louis, Medicare-Glaser's director of professional services, Ken Anderson, felt that the flu season had no effect on upward volume movement of OTC cough/cold preparations.

Consumers who bought cough/cold preparations were able to choose from wider selection, including those recently converted to OTC status after being available only by prescription.

According to an exclusive *DrSN* OTC study, consumers chose the newer OTC conversion products over products that virtually had the market to themselves for many years.

For example, within the cough/cold category, four of the 23 products in the top 100 (dollar volume) and five of the 24 products in the top 100 (unit volume) were OTC conversions.

In particular, Schering's outstanding success with Drixoral and Afrin together with Parke Davis' Benylin and Burroughs Wellcome's Actifed, helped retailers stimulate cough/cold sales even in those areas not hit by a flu.

Some chain buyers said that not only did the flu and bad weather favorably affect cough/cold sales but an increase in their vitamin sales could be seen as well.

Capturing 10.1% share, vitamins were the second highest contributor to increased proprietary department sales in 1983.

Considering the number of retail outlets that sell vitamins, drug stores did exceedingly well. Drug stores accounted for 65% of all vitamin sales while supermarkets and discount stores placed a poor second and third with 10% and 8% market share respectively.

1983 Proprietaries department highlights

Chain drug proprietaries sales	$3,185,045.000
1983 percentage gain	12.3%
Percentage of total chain drug sales	14.0%
Typical gross margins	30% to 35%
Industry gross profit yield from proprietaries last year	$955,-$1,115,000,000
Average no. of annual dept. turns	5

1983 Proprietaries department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Analgesics	$311,854	15.7	9.8
Vitamins/nutritionals	322,460	13.7	10.1
Cough/cold (tabs/caps/loz.)	270,509	15.9	8.5
Cough/cold (liquids)	194,036	13.4	6.1
Antacids	198,575	9.3	6.2
Laxatives	219,522	6.4	6.9
Diet aids	84,142	5.2	2.6
Eye care/lens care	133,724	14.5	4.2
Asthma inhalers/ tabs/liq.	12,489	10.9	0.4
First aid	193,590	8.3	6.1
Wets & dries	25,012	8.6	0.8
Feminine hygiene	155,277	14.3	4.9
Family planning	130,017	14.9	4.1
Acne preparations	60,044	7.9	1.9
Sleeping aids	25,038	11.8	0.8
Antidiarrheal/antinausea	61,290	7.6	1.9
Dental care	305,656	13.5	9.6
Baby needs	275,299	10.5	8.6
Footcare products	130,259	14.6	4.1
Home health care	46,737	16.4	1.5
Miscellaneous	29,513	6.9	0.9

Source: *Drug Store News* survey

Analgesics, which in 1982 was the second best-selling category, dropped to 3rd place and increased only slightly in 1983 to a 9.8% share of total department sales.

The Tylenol tampering incidents hit the analgesic market hard. Tylenol had accounted for 43% of all analgesic sales when retailers were forced to take all Tylenol products off their shelves for return. Even though McNeil did an excellent job of restocking the product, analgesic sales plummeted when retailers had to look for other nonaspirin products to fill the gap. Judging from the small increase of analgesic products, it appears that many consumers did without any analgesic substitutes and waited for Tylenol to re-enter the marketplace late in 1983.

COUGHS
COLDS

Many new OTC products that once required a prescription helped boost the cough/cold category to the top sales position in the OTC department.

Dental care products realized a 13.5 increase in overall sales in 1983, due primarily to inflationary price increases but increased only slightly in their share of OTC department sales to a 9.6%.

Many chain buyers felt that the slight share increase was due to consumers just switching from their old brand of toothpaste, toothbrush or dentifrice to a newer more expensive one, so that total unit sales remained flat.

Home health care, at one time considered to be an extension of the first aid category, now enjoys its own ranking thanks to an impressive effort by many chains in promoting these products at freestanding locations.

By the end of 1983, 13 chains had opened a total of 38 freestanding, 2,000-5,000 sq. ft. home health care centers nationwide. Many other chains also expanded their in-store home health care departments. This combination resulted in a 1.5% share of the total proprietary department sales for 1983 in home health care.

Sales of eye care products, especially contact lens products, also climbed dramatically as manufacturers of hard lens products shifted their marketing emphasis to the soft lens user.

A 21% unit gain in soft lens solutions and a 32% unit gain in prepared salines boosted the total sales of the eye/lens care category 12% in 1983, Lens care now represents 4.2% of total OTC department sales. Many chains reported sales of hard lens solutions and accessories remained flat or even slightly down in 1983.

Other 1983 category increases were found among laxatives, feminine hygiene, family planning and footcare products.

Topping the list and boosting footware products to a 4.1% share of total department sales, were the antifungal products. Schering's Tinactin, an Rx-to-OTC conversion, was the only antifungal to make *DrSN*'s top 100 best-selling OTC list. Sales of the Dr. Scholls product line, a long time staple in the footcare market and well represented in drug stores, helped stimulate sales in that category.

The majority of remaining OTC categories increased only marginally in their department shares, if at all.

The very small gains in department share of first aid products, wets & dries, acne preparations and baby needs were due mainly to price increases and lack of any substantial new product introductions.

Because some manufacturers' changed the formulas of their popular sleeping aids, that category generated only 0.8% of total department sales.

Private label vitamin growth for 1983 rose approximately 20% and accounted for 65% to 70% of total vitamin volume.

Stationery hits: school, office

1983 Stationery department highlights

Chain drug stationery sales	$1,053,262,000
1983 percentage gain	12.1%
Percentage of chain drug sales	4.6%
Typical gross margins	40% to 45%
Typical gross profit yield from stationery last year	$421,-$474,000,000
Average no. of annual turns	4.5

1983 Stationery department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Cards	$352,882	12.2	33.5
School, home/office	271,269	14.1	25.7
Books & magazines	185,316	10.2	17.6
Writing instruments	74,083	11.1	7.0
Social stationery	54,983	9.4	5.0
Gift wrap	65,755	12.6	6.0
Disposables/party supplies	39,373	12.2	4.0
Art supplies	9,599	4.8	0.9

Source: *Drug Store News* survey

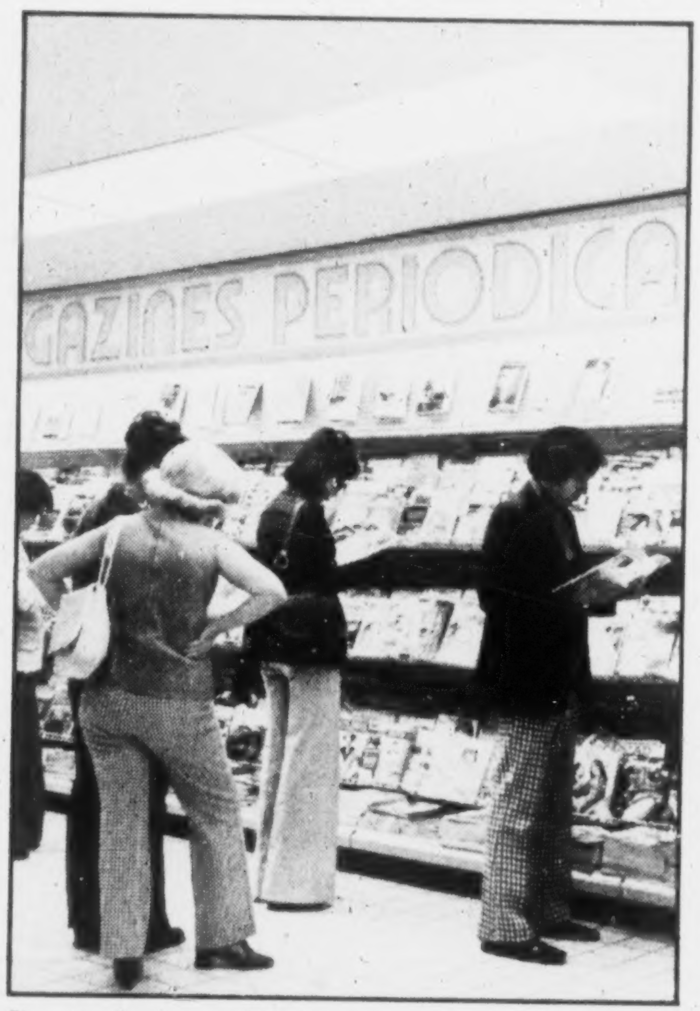
Across-the-board gains in greeting cards, school supplies and home office products powered the stationery department to a 12.1% sales gain in 1983.

The biggest increase in the stationery category was posted by the school supply and home office segment. Sales of these products rose 14.1% in 1983 to $271.2 million.

Retailers noted that the biggest factor in the sales increase was the fact that drug chains moved aggressively to upgrade both school supplies and home office sections last year.

As with many of the stationery categories, licensing helped retailers generate dramatic gains in school supply sales. Some chains allocated as much as 25% of their school supply merchandise mix to licensed goods. Chains that were able to latch on to a hot licensed product were able to generate margins of more than 45%.

Drug chains also segmented their school supply department more than they have done in the past in an attempt to corner both the college market and students at the elementary and high school levels. Retailers reported that high school and college students, in particular, are demanding better quality school supply products, which frequently carry higher profit margins.



Drug chains added specialty lines to their greeting cards mix last year and were able to snare a bigger portion of the younger market.

On the average school supplies carry margins of more than 40% and can turn at a rate of more than 10 times a year.

Perhaps the biggest development in the stationery department last year was the growth of the home office market. A number of drug chains have targeted this category for expansion and are introducing planogrammed departments in their stores.

Chains like Fay's, SupeRx and Carls began testing 16-ft. home office supply sections in some of their stores last year. The sections, aimed at small businesses, contain a variety of products including legal pads, telephone message pads, manilla envelopes, ledger books, filing folders, 500 count boxes of envelopes and replacement paper for personal and home computers.

Drug retailers believe that the multibillion dollar home office market is wide open. As recently as 10 to 15 years ago commercial stationery and home office dealers controlled approximately 75% of the market. However, with their extensive network of stores and sophisticated distribution systems, drug chains can sell home office products at margins of 35% to 45%, nearly half the margins set by commercial stationery dealers. For this reason, mass marketers are expected to increase their current 50% share of the market.

Drug stores with well-stocked home office departments appeal to one-stop shoppers. Retailers point out that an office manager or secretary at a small business would rather purchase office supplies in a drug store than in a commercial stationery shop because they can take care of their cosmetics or H&BA needs in one shopping trip.

While small businesses still account for the bulk of the sales made by stationery shops and mass merchandise outlets, use of office supplies is on the rise in the home as well. Currently, more than 2.2 million people are working out of their homes and some Government analysts believe this number will grow by more than 10 times by 1993.

But not only are homes that serve as business offices targets of drug retailers, households in general are using more office supplies.

Retailers reported increases of such products as filing boxes and record books.

Many retailers also believe that there will be a dramatic increase in the demand for computer supplies over the next few years. With more than 2.5 million home computers sold during the recent holiday season, drug retailers expect the market for products such as disk storage devices and computer paper to expand rapidly.

Greeting cards turned in another outstanding performance in chain drug stores last year. Sales increased 12.2% in 1983 to $390 million. Cards contributed 33.5% to the stationery department's total sales of $1.05 billion.

The strong increases registered in the greeting cards category was particularly impressive in light of the fierce competition waged by supermarkets and discount stores.

Drug chains have attempted to offset the inroads made by other mass merchandise outlets by expanding and upgrading their greeting card departments. Some chain operators have allocated as much as 30% to 40% more space to greeting cards and wherever possible have moved the departments to the front of the store to stimulate impulse purchases.

Total greeting cards consumption was up in the United States in 1982, the most recent year that figures were available. More than seven billion greeting cards were exchanged. Industry experts believe that by 1985 unit sales will top 8.5 billion.

Fueling the growth of the greeting cards industry has been the numerous lines of specialty cards that have been introduced in recent years.

Chains have been able to share a larger share of the greeting card market by carrying more of these specialty lines that, in particular, appeal to younger age groups.

Licensed greeting cards did exceptionally well last year, drug retailers reported. Chains can expect similar increases this year as greeting cards companies introduce new licensed characters.

Tighter inventory controls also helped boost the performance of the greeting cards department in 1983. Retailers said that they were in a better in-stock position throughout the year. And by reducing unnecessary inventory, chains were able to realize a better ROI.

Christmas cards last year continued to garner the biggest portion of the overall greeting card market. However, many chains noted significant increases in Valentine's Day cards and everyday cards.

The licensing boom carried over to other stationery categories last year. Gift wrap registered a 12.6% gain in drug stores as sales reached $65.7 million.

Chains also reported a steady increase in the disposable party supplies segment. Sales of products such as paper plates, balloons, plastic forks, knives and spoons and paper tablecloths grew by 12.2% to $39.3 million.

New product introductions contributed to the 11.1% increase in the writing instruments category. Erasables did particularly well during the back-to-school season, several buyers reported.

Overall writing instrument sales totaled $74 million in 1983 and accounted for 7% of the department's total volume.

The social stationery category also showed a healthy sales increase of 9.4% to $54.9 million in 1983. Social stationery represented 5% of the department's total sales.

The other major component of the stationery department—books and magazines—generated a 10.2% increase in sales last year. The $185.3 million in books and magazine sales represented a hefty 17.6% of the department's volume.

Many chains have been able to stimulate interest in books and magazines by introducing reading centers in stores. Overall, books and magazine sales rose 10.2%.

Part of the reason for the strong showing: Drug retailers did more cross-merchandising with books and magazines last year. In addition, chains like Walgreens and Page Drugs have managed to stimulate consumer interest in the category by introducing reading centers in some of their stores.

Art supplies, the smallest segment of the stationery department, grew at a moderate rate last year. Sales increased 4.8% to $8.6 million and contributed just under 1% of the department's total volume.

Toiletry share of chain sales rises

Toiletry sales in chain drug stores cracked the $2.4 billion mark last year. The category now accounts for 11.6% of all chain drug sales, with the strongest performances coming from the following categories: ethnic products, shampoos, deodorants and suntan/sunburn products.

Ethnic health and beauty aids turned in their best year ever in 1983. Sales jumped 14.5% to $152.7 million. Much of the gain was generated because many chains either added new ethnic departments to their stores or enlarged existing departments.

Shampoos were the second-fastest growing category in the toiletries department. Sales in 1983 were up 13.4% to $260 million. Sales were boosted by the influx of new items such as salon-style products aimed at an upscale market, but budget priced shampoos continued to hold their own as shoppers showed no less enthusiasm for ferreting out good buys, particularly if they were advertised specials.

Twin packs continued to move, helped by the late 1983 introduction of a host of new shampoos.

Suntan/sunburn product sales jumped 12.8% in 1983 to $112.5 million. Sales came from both suntan items and those with a higher SPF (sun protection factors) designed to insure against burns. Additionally, volume was up because retailers strove to make suncare a year-round rather than a seasonal one. Perry Drug, for example, merchandised suntan items in a cold and blustery March. Why? To satisfy shoppers headed to warmer climates on vacation.

New suncare products launched during 1983 had a cosmetics twist to them, which was not surprising because the market is predominately female. Sales also received a shot in the arm from retailers who began merchandising the products on endcaps.

Conditioner sales leveled in 1983, but not enough to cause a sharp decline in sales. In 1983, volume rose 12.5% to $165.5 million. Conditioners now account for almost 7% of total category sales. Most of the increases came from the treatment type products designed to improve damaged hair. Chain drug stores currently account for almost 35% of all conditioner sales.

Deodorant sales improved dramatically last year, jumping 12.4% to $282.7 million after a few back-to-back flat years. Deodorants, with an 11.8% share, are the second largest component of toiletries.

Handcream and skincare sales jumped 12.3% to $287 million as the longstanding brands maintained their hold on the market. Drug chains, with a 45% share, dominate this category, although supermarkets have been making inroads. Handcreams/skincare remain the largest contributor to chain toiletry sales.

It was a similar story with body creams and lotions; sales rose 12.2% last year.

During 1983, it appeared that more women decided to try depilatories as a sure-fire way to remove hair without the trouble of shaving. Although this category produces only 0.4% of toiletry sales, volume hit $9.1 million last year, up 11.8% over 1982.

Razors, on the other hand, are big business in chains, which account for better than 20% of all disposable razor sales. According to *Drug Store News*' research, razors/blades sales were up 11.6% to $114.9 million.

And, just as more people are shaving with disposable, more women are coloring their hair. Sales escalated 11.4% to a total of $230.4 million in 1983.

Perms and straighteners sales flattened out in 1983, rising 11.3% to $20.8 million. Industry sources suggest that the big perm boom of the early 1980's may be over. However, the perm business is steady and chains dominated the market with close to 48% of all perm sales.

With disposable razors sales rising, men's shaving creams are inching up, too. Sales were 11.2% better in 1983 than 1982 for a total of $35.5 million.

But sales of products for the rest of a man's needs are still flat as men continue to hide in the closet when it comes to grooming aids. Sales, because of price hikes, rose 10.5% to $276.2 million. The industry needs a marketing campaign designed to inspire men to purchase their own grooming needs.

Hair notions may not have sales figures that shake the earth, but they produce a steady volume year after year. That was the case in 1983 when volume rose 9.1% to $93.5 million. Chain drug stores lead in hair notions accessories over discounters and supers.

However, supermarkets are stealing share away from chains in hair sprays. Sales were up only 8.9% last year in chain drug stores to $91.5 million. This category may also be in trouble as the mousse market continues to grow.

1983 Toiletries department highlights

Chain drug toiletries sales	**$2,403,497,000**
1983 percentage gain	**+11.6%**
Percentage of total chain drug sales	**10.5%**
Typical gross margins	**25% to 30%**
Industry gross profit yield from toiletries last year	**$600,-$720,000,000**
Average no. of annual dept. turns	**5**

1983 Toiletries department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Handcream/skin care	$287,070	+12.3	11.9
Deodorants	282,687	+12.4	11.8
Men's toiletries	276,152	+10.5	11.5
Shampoos	260,079	+13.4	10.8
Hair color	230,443	+11.4	9.6
Rinses & conditioners	165,512	+12.5	6.9
Body creams & lotions	111,870	+12.2	4.7
Ethnic beauty aids	152,726	+14.5	6.4
Hair notions	93,516	+ 9.1	3.9
Razors/blades incl. disp.	114,881	+11.6	4.8
Hair sprays	91,529	+ 8.9	3.8
Suntan/sunburn	112,472	+12.8	4.7
Shave creams	35,519	+11.2	1.5
Perms/straighteners	20,805	+11.3	0.9
Depilatories	9,057	+11.8	0.4
Miscellaneous	159,179	+ 8.9	6.6

Source: *Drug Store News* survey

Chains boost commitment to ethnic

Chain drug stores are currently capturing about $153 million a year in ethnic hair care and cosmetics product sales.

Hair care, by far, accounts for the bulk of ethnic product sales in drug stores, but cosmetics sales are slowly starting to inch up, partly as a result of the retailer's growing commitment to this department.

In the past few years, the leading chains such as Eckerd, Revco and Walgreens have begun to enlarge their existing ethnic product departments while simultaneously putting new departments in stores with locations with easy accessibility to black and Hispanic shoppers.

As part of their growing commitment to this highly profitable section, they've also started to advertise ethnic products more in tabs as well as newsprint ads.

Revco, which carries 225 ethnic items in 1,100 stores (66% of all stores in the chain), has been so successful with this category that management now highlights ethnic product sales in its annual report.

Walgreens has also expanded the department. Today, most Walgreen stores have ethnic product sections, with the departments ranging in size from 3 sq. ft. to 21 sq. ft. At Revco, where ethnic product sales are growing at the rate of 40% a year, the sections now range from 12 to 24 sq. ft. on average and some stores give the department as much as 40 sq. ft.

Chain buyers are saying they will set up an ethnic products department even if their individual stores are in neighborhoods where just 5% of the targeted shoppers are black.

A recent study executed by the American Health and Beauty Aids Institute found that while black and Hispanic shoppers may only account for 5% of an individual store's traffic, they are responsible for generating 15% of all H&BA sales.

Just on hair care alone, the study found, blacks tend to spend three times more than white shoppers.

The study also found that blacks shop drug stores that are close to their jobs as well as stores closer to home. Partly because of this study, many chains now believe they don't necessarily have to have stores in ethnic neighborhoods to justify featuring an ethnic product section. Eckerd, in fact, has ethnic departments in all but 10% of its 1,371 stores while SupeRx has departments in some 60% (364) of its 605 stores. Thrift drug has sections in nearly 70% of its 363 stores and is hoping to roll the department out to all stores within two years.

Flush from success with ethnic hair care products, many chains are now turning their attention to building ethnic cosmetics volume.

Upscaling boosts cosmetics sales

After the pharmacy, cosmetics is the area where drug store retailers worked hardest to build sales during 1983.

Their efforts paid off as sales rocketed 12.2% to $1.2 billion. That was the highest increase in this category for the last five years.

Chains produced these numbers by upgrading their mix, promoting harder and working to stay in stock on hot merchandise. Indeed, while the entire industry growth was stagnant, rising only 4%, chains produced a volume that grew not only from price increases, but unit movement as well. At the same time, drug chains continued to draw new shoppers, especially those who had shopped department stores.

Cosmetics, as a category, produces 5.2% of total chain drug volume. And, although at 2.2 turns per year, cosmetics remain a slow-turning department, it produces high gross margins per square foot and a healthy gross margin return on investment. Cosmetics gross margins fall in the 30% to 40% range.

Perhaps the biggest chain success story last year was fragrances. Not only did drug stores post whopping gains with prestige fragrances, but they also enjoyed solid results from budget and mass brands. Together, toilet water/colognes and perfumes generated sales of $355.3 million, up 12.8% from 1982. Toilet water/cologne sales jumped 12.7% while perfumes picked up steam rising 13.4%. Fragrances produce about 30% of all cosmetics sales in chains.

Sweet smell of success

Prestige, often diverted, fragrances such as Chloé, Opium, Oscar, Ciara and White Shoulders socked some pizzazz into fragrance sales. But, the mass and dual distribution items such as Vanderbilt and Le Jardin also turned in a strong year as did fragrance line extensions including Aviance Night Musk.

In many cases, drug chains themselves were the catalysts in perking up sales. This was done via direct-mail catalogs or consumer sweepstakes. Eckerd, for example, boosted Christmas fragrance sales via a glossy catalog. Peoples used a catalog and a consumer sweepstakes.

The challenge for 1984 will be to see if drug chains will continue to secure and be able to sell prestige brands. There are some indications that manufacturers will be clamping down on their pricey brands and once again limiting their distribution to department stores. Drug stores, however, have proved they can sell these items and buyers hope vendors may decide to sell them directly.

Pegged cosmetics are the second strongest performers in the cosmetics category. These items appeal to today's woman whose shopping time is limited. Once considered the lower-end items, pegged cosmetics now also have an upgraded look.

An increased emphasis on devoting the proper space per sales to pegged lines helped push pegged cosmetics sales 13.5% last year to $266.9 million or 22.3% of all cosmetics sales.

Facial treatments remain an enigma for the chains. There appears to be a need in the mass market, but few products have cracked through the self-service barrier. Because of that, treatment sales have been stagnant. Volume rose 10.9% last year to $175.3 million.

Facing the trends

The biggest trend in this area is concentration on the science of skin care. It seems that the more clinical or natural the skin care item; the better the sales. Two good examples are the success of Revlon's European Collagen Complex or Queen Helene's Gift of Life Moisturizing items which contain a natural ingredient called placenta.

Line extensions of longstanding favorites also fared well in facial treatments. This includes Oil of Olay's Beauty Bar or Clairol's Sea Breeze moisture lotion.

The bath is being rediscovered. Women are once again using baths to pamper themselves. Sales in bath preps rose 12% last year to $110.8 million. What retailers have noticed is a trend to the higher-ticket bath items such as Vitabath. Also, 1983 saw the birth of a new area in bath—the shower gels. Bare Elegance and Soft All Over were two products pioneering this trend.

Lip products enjoyed a healthy 10.5% sales increase which was instigated by the debut of lip repair products similar to Elizabeth Arden's phenomenal Lip-Fix. There are no fewer than six entries into this burgeoning category. Paced by these items, lip color and lip product sales reached $109 million last year.

Nailing down sales

Even more productive than lip was nail during 1983. Retailers are amazed at what percentage of total sales now come from this category. According to *Drug Store News*, nail polish and preps produce 8.6% of the cosmetics department volume; the fastest-growing products are those which help nails grow or those which condition the nail. This includes hardeners and strengtheners.

Rounding out the category with a 6.3% share is eye color, makeup, powders, creams and liquids. New products as well as a change to merchandising by line rather than category perked up volume in these areas. Kits, coordinated groupings of mascaras, shadows and blushers, fared well as did the budget lines offering trendy colors.

Increased advertising by manufacturers helped boost this category 9.3% last year to a total of $74.6 million. What's more, retailers peg this area as one that will show substantial growth in the latter half of the 1980's.

1983 Cosmetics department highlights

Chain drug cosmetics sales	$1,194,945,000
1983 percentage gain	+12.2%
Percentage of total chain drug sales	5.2%
Typical gross margins	30% to 40%
Industry gross profit yield from cosmetics last year	$358,-$478,000,000
Average no. of annual dept. turns	2.2

1983 Cosmetics department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Fragrances	$355,266	+12.8	29.7
Toilet Water/ cologne	287,920	+12.7	24.1
Perfumes	67,346	+13.4	5.6
Pegged cosmetics	266,990	+13.5	22.3
Facial treatments	175,270	+10.9	14.7
Bath preps	110,835	+12.0	9.3
Lipstick/lip color	108,959	+10.5	9.1
Nail polish/nail preps	103,013	+12.9	8.6
Makeup, powder, cream & liquid	74,612	+ 9.3	6.3

Source: *Drug Store News* survey

Drug chains were able to draw new shoppers away from department stores by upgrading their cosmetics departments last year.

The fragrance category of the cosmetics department, benefiting from the influx of prestige brands, generated a sales increase of 12.8% to $355.3 million.

PRODUCTS

1984 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

At-home parties jazz housewares

The housewares category held steady in chain drug stores last year as sales rose 7.3% to $1.6 billion. Pacing sales were products associated with a new consumer lifestyle. These included plastic and rubber housewares, kitchen gadgets, furniture and outdoor furniture and the bath/closet category.

What has happened is that as consumers turn to their homes for entertaining, they've traded up in housewares. For instance they haven't been afraid to dig into their pockets to pay for new lawn furniture. They also are inclined to buy K-D (knockdown) furniture.

At the same time, today's population is more transient than ever and therefore buys frequent replacement rubber and bath products. Underlying all of these trends is the ever important need for space-saving items.

Plastic and rubber sales jumped 7.4% to $368.7 million last year. Chains attribute the gains to increased promotional activity. Also, as people move from one area to another, they're replacing their old dish racks and laundry baskets. These two items are the fastest moving rubber products, chains say. Rubber and plastic account for almost 23% of chain's total housewares sales.

Today's typical customer is also upgrading her selections . . . she observes department store housewares and enjoys the fact that drug chains now have kitchen gadgets and gourmet items that rival the local department store's. Because of that, the house and kitchen gadgets/gourmet category turned in a strong performance; sales rose 7.6% to $107.2 million, or 6.6% of total housewares volume.

As mentioned before, furniture volume is up in chains. Sales rose 7.6% last year to $49.7 million. Sales gathered steam as chains added four-color, glossy catalogs featuring oak-veneer end tables, rocking chairs and wine racks. Also, chains are adding K-D and outdoor furniture to their mix. Perry Drug, for example, carries outdoor furniture sets rivaling those sold in the chic Fortunoff chain.

The search for more space spurred sales in the bath/closet category last year. Sales increased 7.6% to $30.1 million. This is a small, but growing area for chains.

Small electrics also turned in a good performance with sales up 7.5%. Total volume in this category, which includes men's shavers, hair dryers and curling items, hit $188 million. Flocked hair products that don't tear the user's hair were big news. Also, space-saving coffee makers and can openers attracted shoppers during 1983.

Paper products, a longstanding promotional favorite, had sales 7.4% higher in 1983 than 1982. Retailers kept up the hot competitive pricing in this category.

Microwave cookware was the biggest news in the glass/dishware/cookware category, which had 1983 sales of $180 million, up 7.3%. Chains agree that microwaves have hit the mass audience (25% of the population owns one) and along with the ovens comes a need for cookware designed for use in them.

During 1983, customers were enticed by beveled picture frames. These curved frames, available in lucite or glass, helped spur sales of frames and mirrors to $67 million. Another decorative category—plants and plant care—also enjoyed a sales boost of 7.2% last year. More chains added plants to their mix and promoted them in ads.

Household supplies, a category that was once only big in supermarkets, gained a foothold in the drug store industry during 1983 with sales jumping 7.2%. This category now commands 13.2% of the total housewares volume in chain drug units.

Lighting up sales

Upscale lighting products added pizzazz to the lighting category. Sales in this area rose 7.1% last year to $85 million.

There were two areas with soft sales last year. Those were insecticides and shoe care. Insecticide volume inched up only 6.1% to $58 million while shoe care was up 7% to $20 million. In both cases, retailers attribute disappointing sales to the fact that shoppers prefer more specialized units as a source for these items.

Although drug stores account for a miniscule portion of the $45 billion housewares category, chains expect a 16% sales gain during 1984. Among the items they're banking on to produce that sales gain are microwave cookware, storage containers, upscale furniture items, telephones, personal care items and home health care products.

1983 Housewares department highlights

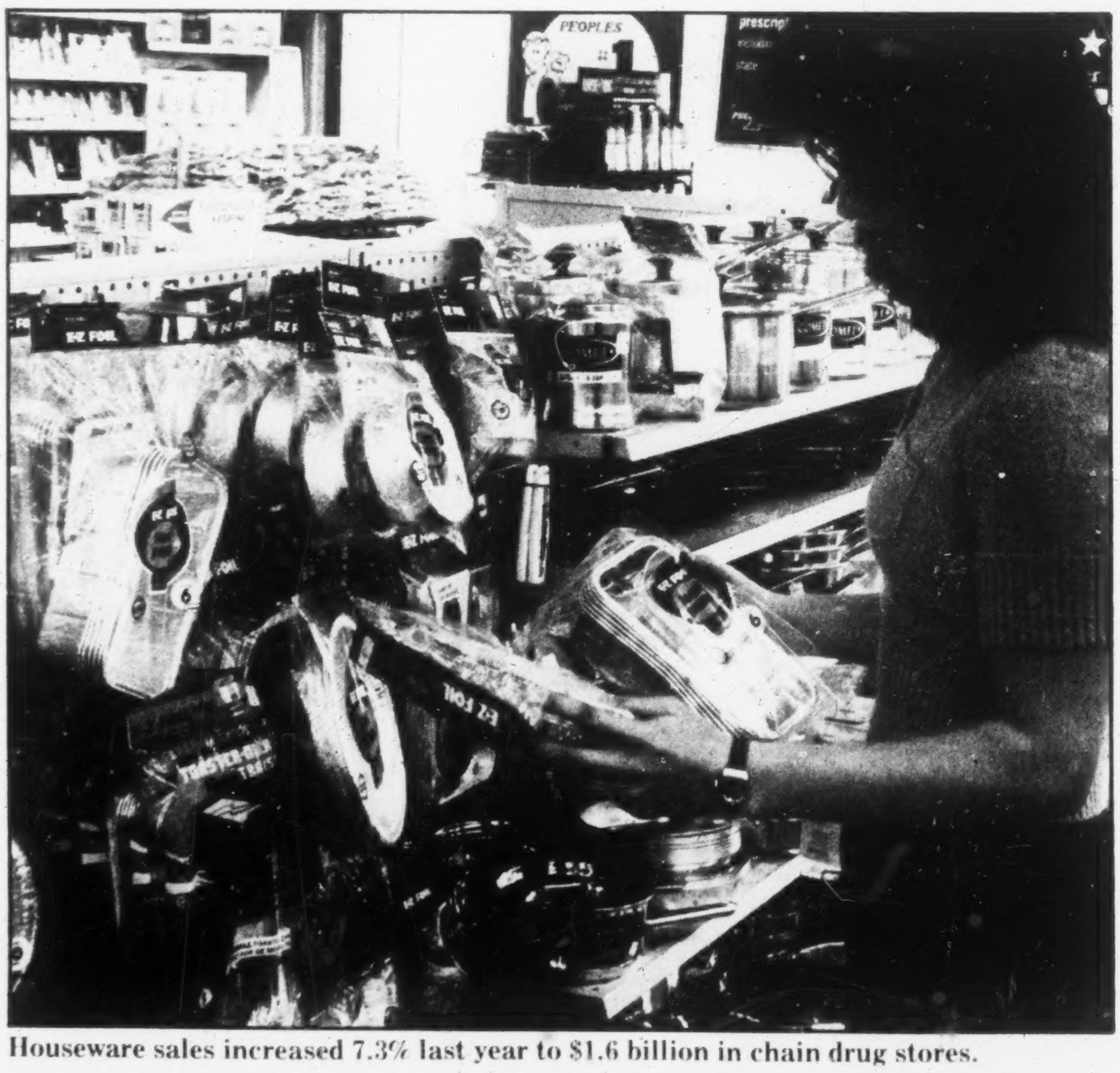
Chain drug housewares sales	$1,400,002,000
1983 percentage gain	+7.3%
Percentage of total chain drug sales	6.5%
Typical gross margins	35% to 45%
Industry gross profit yield from housewares last year	$490,-$665,000,000
Average no. of annual dept. turns	3

1983 Housewares department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Plastic & rubber housewares	$332,919	+7.4	22.5
Household supplies	194,387	+7.2	13.1
Small electrics	170,218	+7.5	11.5
Glass/dishware/cookware	163,199	+7.3	11.0
Paper products	128,105	+7.4	8.7
House & kitchen gadgets/gourmet	97,535	+7.6	6.6
Lighting products	77,216	+7.1	5.2
Picture frames/mirrors	61,173	+7.2	4.2
Insecticides	53,586	+6.1	3.6
Furniture/outdoor furniture	45,822	+7.6	3.1
Plant/plant care	42,089	+7.2	2.8
Bath/closet	30,144	+7.6	2.0
Shoe care	19,146	+7.0	1.3
Miscellaneous	64,463	+6.9	4.4

Source: *Drug Store News* survey

Plastic and rubber houseware items contributed 23% of the department's sales.



Houseware sales increased 7.3% last year to $1.6 billion in chain drug stores.

PRODUCTS

1984 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Dolls, games spur toy sales growth

The once-explosive videogame market softened during 1983, leaving room for basic dolls and board games to steal a bigger chunk of the $10.4 billion toy market.

Drug chains account for only a small slice of that total market. Indications are, however, that their percentage is growing as more toy manufacturers seek increased distribution via mass outlets. The marriage is a lucrative one for drug retailers, too, because toys not only enhance their one-stop shopping image but also produce margins in the 35% to 40% range.

Toy sales reached $623.6 million in chains during 1983, a 6.4% jump over 1982. That fell short of the 15% overall gains reported by the toy industry, but was still a modest advance over the CPI. Toys account for 2.7% of drug chains' overall volume.

Drug store sales gains were produced mainly by the basic, inexpensive, impulse products. However, a few chains were savvy enough to snare a crop of Cabbage Patch Kids and Trivial Pursuit board games. Genovese, for example, was able to move every Trivial Pursuit game it got its hands on; while Pay Less gave away 2,700 pudgy Cabbage Patch Kids as a traffic draw.

Despite the well-publicized success of those two items, the real winners in toys last year in chain drug stores were board games, with sales up 7.1% to $102.5 million. Traditional games, such as Clue and Monopoly, fared well, as did licensed offerings, including Strawberry Shortcake and Pac-Man.

Pegged for sales

Pegged toys remained an integral part of the chain drug mix with sales rising 6.4% to $84.6 million. Pegged toys account for 13.6% of the chain drug toy department sales, and appear to be the vehicle manufacturers are using to enter the mass toy business. Lego, for example, recently bagged its line so that chain drug stores could sell the items.

Toy cars raced toward total sales of $80 million, a 6.1% jump over 1982. Again, the licensed concept, such as the Dukes of Hazzard theme, helped boost sales of cars. Hot Wheels by Mattel continue to be strong. In fact, over 500 million Hot Wheels cars have been moved in the product's 16-year history.

Price resistance impacted sales of boxed toys last year with sales rising only 5.8% to $72.7 million. Many chains weeded out boxed toys in favor of faster turning pegged products, board games and dolls.

Also, additional space was devoted to preschool, a category on an upward trend thanks to a baby boomlet. Sales rose 7% to $56.1 million last year.

Plush is flush

The plush category, once on the verge of being removed from chain drug stores, made a resurgence last year with the help of characters including Smurfs, Garfield and Snoopy. Sales increased 6.6% and now account for 7.5% of total toy sales.

Dolls also regained popularity last year. Paced by sales of Cabbage Patch, the entire doll category swelled to $46.6 million in chain drug outlets, 6.9% higher than in 1982. In addition to Cabbage Patch, Barbie continued to sell well. According to Mattel, the 25-year-old Barbie is purchased by more than 10 million people worldwide each year. Hasbro's Charmkins was another popular brand last year. The challengers for 1984 include Rainbow Brite, Rose Petal Place and Chatty Patty.

Two fringe toy areas had a marginal year. Kites sales rose 5.6% to $65.9 million and hobbies increased 6.7% to $37.4 million.

Video games on fritz

Video and computer products are also suffering. Sales in 1983 increased only 5.7% to $32.3 million in this category, which was once the darling of the industry. However, a great deal of that was amassed at the sacrifice of gross margins. The problem was that too many companies jumped into the business, causing a shakeout. Drug store retailers found the business just too tricky to maintain, and in 1983 many of them got out of both video and computer items.

For 1984, there are a host of hot new licensed prospects awaiting drug store retailers. These include Gremlins (characters from Steven Spielberg's next movie), Rainbow Brite, Rose Petal Palace, The Get Along Gang and Muppet Babies. Also, already established licenses including Cabbage Patch, Care Bears and Masters of the Universe are slated for a strong year.

Because toy space is limited for drug chains, buyers say they'll make sure a license is hot before taking it and hope it turns out to be a standard and not a fad.

1983 Toy department highlights

Chain drug toy sales	$623,580,000
1983 percentage gain	+6.4%
Percentage of total chain drug sales	2.7%
Typical gross margins	35% to 40%
Industry gross profit yield from toys last year	$215,-$250,000,000
Average no. of annual dept. turns	4

1983 Toy department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Games	$102,549	+7.1	16.4
Pegged toys	84,576	+6.4	13.6
Cars	79,203	+6.1	12.7
Boxed toys	72,705	+5.8	11.7
Kites	65,910	+5.6	10.6
Preschool	56,094	+6.9	9.0
Plush	46,584	+6.6	7.5
Dolls	46,220	+6.9	7.4
Hobbies	37,405	+6.7	6.0
Video/computer	32,334	+5.7	5.1

Source: *Drug Store News* survey

Othello
Yahtzee
Triple Yahtzee
Number Up
Connect Four
Perfection
Battleship
Candy Land
Checkers

Board games were among the winners in the toy department last year as sales increased 7.1% to $102.5 million.

Pegged toys remained the most consistent performer in the chain drug toy department mix accounting for 13.6% of the department's total volume.

PRODUCTS

1984 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Promotions push GM sales to $1.1B

Total chain drug sales in the general merchandise category were $1.1 billion in 1983, an increase of 9% over 1982. General merchandise accounted for 4.8% of the total 1983 drug store sales volume.

General merchandise products typically average five turns per year—with gross margins of between 35%-45%. Last year's gross profit dollars averaged between $385 billion and $495 billion.

Personal care accounted for the greatest percentage of dollar sales in this category, $203 million or 18%. Sales of personal care items increased 9.9% in 1983.

Small personal care appliances such as curling irons, blow dryers, and electric razors have done especially well in drug stores. While drug stores are not usually considered a popular outlet for such items, these stores have attracted customers by offering the best sku's along with competitive price selection. As in the case of hair appliances, it is not usual to find a drug store with a lower-price Windmere and a higher-end Sassoon.

These appliances have become popular promotional items with drug stores, which have been able to advertise the lower-end promo prices along with the more expensive brand names. These items also work well as seasonal promotions. For example, electric razors are often advertised for Christmas and Father's Day and hair appliances for Mother's Day.

Advertising effective

These efforts seem to be working. The December results of the Third Annual Consumer Study showed that almost 20% of those surveyed purchased their last small personal appliance in a drug store. And while many of these items have been promotional in nature, small appliances have still turned out to be profitable. Although gross margins sink as low as 10% when advertised, the everyday margins range as high as 35%.

1983 General merchandise department highlights

Chain drug general merchandise sales	$1,101,974,000
1983 percentage gain	+9.0%
Percentage of total chain drug sales	4.8%
Typical gross margins	35% to 45%
Industry gross profit yield from general merchandise last year	$385,-$495,000,000
Average no. of annual dept. turns	5

1983 General merchandise department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Personal care (incl. elec. razor)	$203,148	+ 9.9	18.4
Sunglasses	157,568	+ 7.9	14.3
Pet needs	132,205	+ 8.9	12.0
Sporting goods	117,733	+ 8.4	10.7
Pantyhose/soft goods	172,965	+ 9.8	15.7
Watches/bands	89,234	+ 9.4	8.1
Home electronics	82,376	+10.3	7.5
Yarn/sewing notions	70,765	+ 6.8	6.4
Vaporizers/humidifiers	18,086	+ 9.7	1.6
Giftware	24,251	+ 9.9	2.2
Personal care/ rubber sundries	17,328	+ 7.8	1.5
All others	16,315	NA	1.5

Source: *Drug Store News* survey

Sales of small personal appliances have also been boosted by healthy rebates offered by manufacturers. When these rebates are added to the retailers' sales prices, consumers can save substantially. With a $5 rebate, the final cost of a $7.99 Windmere curling brush is just $2.99—with a $9 rebate, the final cost on a $24.99 G.E. blow dryer—is just $15.99.

Pantyhose and soft goods accounted for the second largest percentage of sales in the general merchandise category—about 16%. Pantyhose and soft good sales were $173 million, a 9.8% increase over last year.

Working women

Retailers say the continued growth is because of the rising number of women in the workforce, who wear pantyhose during the week, and because drug stores are a convenient outlet to women, particularly if they are pressed for time and already in the store to buy other items.

Yet another reason for successful sales is that drug stores offer better price points than department stores. Along with name brands, some stores are now offering private label.

Although discount stores have made major inroads in the sale of sunglasses and the recession had discouraged some purchasing in drug stores, sunglasses still came in the third highest in the percentage of sales dollars in the general merchandise category. Sunglasses accounted for 14% of the category, bringing in $157.6 million, a 7.9% increase over last year.

Sunglasses are a desirable category with margins as high as 50% to 75%, so it's no wonder that drug stores have a fight on their hands to maintain dominance in this area. Statistics from the A. C. Nielsen Company showed that during the first 10 months of 1983, discount store sales of sunglasses were up an extraordinary 29% over the same period in 1982.

Another main competitor, supermarkets scored a 5% gain during the same period.

Because of the encroachment on their sunglass territory, drug store chains are expected to compete more aggressively this year using strategies that include increased advertising and heavy discounting.

Keeping Rover happy

Pet food and supplies continued to be a stable area, convincing retailers that this category is definitely recession proof. The fourth largest in dollar sales, pet supplies made up 12% of the general merchandise category. It accounted for $132 million in sales, an 8.9% increase over the previous year.

As in 1982, new products that kill fleas and ticks make up the fastest growing segment of pet supply departments. These chemicals rank second only to flea and tick collars. Retailers said sales of such collars were particularly good because of heavy advertising by manufacturers. Several buyers said effective promotion of Hartz Mountain's reflector collar has made this high-end item very popular.

In addition to being recession-proof, pet care is a profitable category with gross margins that range from 40% to 70%. Turns are good too, ranging from six to 10 per year.

While other segments of the general merchandise category accounted for smaller percentages of the general merchandise total sales, they did register high percentages of growth in 1983. Among those were home electronics, with a 10.3% increase over the previous year; giftware, 9.9% and vaporizers and humidifiers, 9.7%.

Feature Priced
1200

Selection, price points and manufacturer's rebates on small appliances helped personal care remain the largest segment of general merchandise with $203 million in sales.

SALE
pretty legs
Knee Highs Stockings Panty Hose

Pantyhose and soft goods were again good sellers in the general merchandise category with $173 million in sales, a 9.8% increase over last year.

Cigarettes heat up tobacco sales

Fewer people may be smoking, but tobacco continues to be the fastest-turning category in the chain drug mix. As a department, tobacco turns 15 times per year; cigarettes alone turn even faster.

Sales—bolstered by price hikes of 20%, new merchandising techniques and new products—rose 9.6% in chain drug stores last year. Total volume hit $1.8 billion and tobacco snared 8% of total chain sales. That's down from a few years ago when tobacco produced 9.4% of total volume. Margins, however, have remained stable in the 15% to 20% range.

Additionally, tobacco results in lucrative display allowances from manufacturers as well as sales per square foot as high as $400 with counter displays.

The trend in cigarettes has been one of market segmentation. In 1975, a chain needed to carry only 60 brands to satisfy 95% of the customers. Today, a retailer needs to stock about 142 brands to please shoppers.

In addition to segmentation, the battle for market share between manufacturers has heated up. Last year, Philip Morris—manufacturer of Marlboro, the nation's No. 1 cigarette—passed R. J. Reynolds as the leading company. Philip Morris sold 205 billion cigarettes in 1983. Reynolds, on the other hand, saw its volume drop by 18 million units to 190 million. Its Winston brand slipped by 10 million units. The new rankings are as follows: Philip Morris commands 34.4% of the market, Reynolds 31.9%, Brown and Williamson 7.1%, American Brands 4.1% and Lorillard 4%.

In chains, cigarette sales rose 10% last year to a $1.2 billion. Cigarettes are the mainstay of the department and produce 66.4% of sales.

Brands that had a particularly good year included Marlboro, Newport and Players. Players falls into a classification known as luxury cigarettes—one of the areas showing strong growth. Another luxury brand, Satin, also performed well during 1983 and was especially successful with women.

Generics, another segmentation, continued as upward swing last year and now account for 3% of the market. Production figures show that 17.5 billion generic cigarettes were produced last year. That's up from 5.9 billion in 1982. It appears that the success of generics vary from market to market and store to store.

Cigars still second

Cigars are the second strongest category within the tobacco area. Sales of cigars rose 7.8% to $300.3 million last year thanks to a loyal following of cigar smokers. However, actual production of large cigars fell from 3.7 billion to 3.6 billion while small cigar production stayed even at 1.3 billion. Cigar sales remain tied to seasonal events especially Christmas and Father's Day. Price increases in cigars have triggered a change in buying habits from boxes to single-pack purchases.

Lighters and smoking accessories were a bright note in the tobacco department with sales swelling 10.1%; the highest sales gain throughout the category. Sales reached $153 million last year and buyers attribute growth to the rapid movement of disposable lighters which sell "as fast as shampoo." The disposable lighter market reached 475 million units or about $430 million last year. BIC, the market leader, predicts 500 million units will be moved in 1984.

Good lighter margins

The best feature of lighter and accessories is the margins which run as high as 35% to 40% and help offset the lower cigarette margins forced by competition. Chains say the high-impulse, high-profit lighters sell best at checkouts. Besides lighters, rolling papers, which are gaining in acceptance in the United States, also produce hefty gross margins.

Loose tobacco and other tobacco products also enjoyed a banner year, thanks in part to the success of snuff products. This category registered sales gain of 9.9% for a total of $132.9 million or 7.3% of total category volume. What's more, snuff is the only segment of the industry that showed actual unit growth last year.

Sales up 5%

Unit sales of moist snuff increased 5% last year and a great deal of that increase went to U.S. Tobacco Co., which controls an 88% share of the domestic snuff market. The company's big push has been on its Skoal Bandits product, a pouch of tobacco that the user places between the cheek and gum. Buyers tag it as a great new product that is bringing in incremental sales from new users.

These products are being merchandised near cigarettes rather than other tobacco items including chewing tobacco. Despite the success of U.S. Tobacco, few other manufacturers have entered the arena.

Finally, pipes remain a flat category for chain drug stores. Sales rose only 6.3% last year to $23.9 million. Pipes represent only 1.3% of the total category sales. However, it does appear that as one-stop shopping continues to blossom, chains are gathering pipe business that used to be done by specialty stores. Chain drug stores stick to a narrow selection of only the best-moving pipes.

Pipe tobacco production slipped from 33.6 million lb. in 1982 to 32.8 million lb. this year. However, buyers say the proverbial pipe-smoking professor still does exist and there is a need to carry both pipes and pipe tobacco in the drug stores.

1983 Tobacco department highlights

Chain drug tobacco sales	$1,814,672,000
1983 percentage increase	+9.6%
Percentage of total chain drug sales	8.0%
Typical gross margins	15% to 20%
Industry gross profit yield from tobacco last year	$272,-$363,000,000
Average no. of annual dept. turns	15

1983 Tobacco department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Cigarettes	$1,204,491,000	+10.0	66.4
Cigars	300,300,000	+ 7.8	16.5
Lighters/smoking accessories	153,047,000	+10.1	8.4
Tobacco/tobacco products	132,913,000	+ 9.9	7.3
Pipes	23,921,000	+ 6.3	1.3

Source: *Drug Store News* survey

HALF HALF
77¢
MURIEL
74¢

Tobacco sales advanced 9.6% to $1.8 billion in chain drug stores last year.

KING'S 100'S
099 099
NEW
CENTURY
MONEY SAVING 25 PACK

Cigarettes represented the biggest segment of the drug store tobacco department. Chain drug cigarette sales rose 10% to $1.2 billion.

DIY's best sellers: automotives

1983 Do-it-yourself department highlights

Chain drug do-it-yourself sales	$533,049,000
1983 percentage gain	+6.1%
Percentage of total chain drug sales	2.4%
Typical gross margins	35% to 45%
Industry gross profit yield from do-it-yourself last year	$185,-$240,000,000
Average no. of annual dept. turns	3

1983 Do-It-Yourself department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Hardware	$179,411	+4.5	33.7
Automotive	156,040	+7.9	29.3
Batteries	137,579	+7.5	25.8
Paint/paint supplies	60,019	+3.2	11.2

Source: *Drug Store News* survey

The DIY boom that sent category sales soaring during the late 1970's and early 1980's leveled off somewhat in drug stores last year as sales rose a modest 6.1%.

However, retailers are quick to point out that consumer interest in DIY products did not wane last year but the growth of home centers, hardware "supermarkets" and large discount auto parts chains began to cut deeper into the drug chains' share of the market.

As the DIY market became crowded in 1983, drug retailers were forced in some cases to cut back on some home improvement and hardware items because they simply couldn't compete with pricing strategies set by many high-volume home centers.

Overall, DIY department sales totaled $533 million, which represented approximately 2.4% of all chain drug sales.

But while drug chains placed less emphasis on their hardware and plumbing departments in 1983, the automotive products category continued to attract a great deal of interest among drug retailers. Despite the growth of discount automotive parts chains, drug store automotive department sales increased by almost 8% to $156 million. The auto segment contributed nearly 30% to the total category sales.

It's no coincidence that the expansion of drug store automotive departments has taken place at a time when drug chains have been purchasing auto parts chains. Most recently, Rite Aid and Pay 'n Save joined chains such as Dart Drug, Thrifty, Perry and Malone & Hyde by diversifying into the automotive parts business.

What has fueled the rapid development of the auto aftermarket industry? Observers say that the baby boom generation, a group with significant discretionary income, has contributed to the industry's growth because members of the 18-34 age bracket are more likely than their parents to attempt their own automobile repairs.

At the same time, hard economic times during the past decade have prompted automobile owners of all ages to perform such minor repairs as changing the engine oil and replacing spark plugs and oil and air filters.

Number of autos rises

In addition, the market continues to expand as the number of automobiles per household increases each year. Since 1970, the number of automobiles on American roads has increased 38% to more than $123 million. And while new car sales rebounded dramatically this year, the average American automobile on the road today is still seven years old and a prime candidate for repair work.

Given these factors, it's not surprising that drug retailers have moved to increase the size of their automotive departments in recent years. It's also important to note that profit margins on automotive parts for the most part are consistently higher than margins found in many other drug store categories.

Generally, drug retailers split their auto parts departments into two main categories. Chemicals, which include motor oil, antifreeze, coolants, starting fluids and windshield washer solvent, comprise the biggest segment of the auto department.

Most chains use products like motor oil as a traffic draw. By offering quarts of nationally branded motor oil at prices frequently under $1, drug retailers say they can lure customers into the store where they are more likely to purchase a higher-margin accessory item.

While drug chains are frequently working on margins as low as 10% with motor oil, gross margins on some of the other chemical products are significantly higher. Retailers reported that the unseasonably cold winter last year helped increase sales by 40% to 50% of such products as de-icer, windshield washing solvent, and antifreeze. These products carry margins of 15% to 25%.

The other major segment in most drug chain's auto departments are accessories. While turns on such items as steering wheel covers, upholstery repair kits, seat covers, floor mats and numerous pegged accessories don't compare with motor oil turns, these products can often carry margins of between 35% to 45%.

Accessories are more of an impulse item than are chemicals, which are usually planned purchases. Retailers have noted that accessories also appeal more to female shoppers.

But while chain drug automotive departments turned in a strong performance in the face of increased competition, the hardware department was not as fortunate.

Hardware sales managed only a 4.5% increase in 1983. Sales totaled $179.4 million and contributed 33.7% to the department's overall volume.

The success of the huge home center warehouse stores slowed hardware sales considerably in drug stores last year. Many chains cut back on tool departments, plumbing supplies and electrical products.

Battery sales increased 7.5% to $137.6 million last year and accounted for 26% of the DIY department total volume.

Requests determine mix

Instead of offering a wide selection of hardware products, drug chains relied on frequently requested items as extension cords, electrical fixtures, light bulbs, glues and cements, tapes and common household tools.

Retailers say that even with a leaner hardware mix, they are still able to snare impulse purchases. In addition, because drug stores generally have longer operating hours than home centers, consumers in a hurry to get a fuse or drain plunger can usually find these items in their neighborhood drug stores.

Drug chains have also been successful with hardware items that are promoted in coupon books. Among the chains that reported good results using coupon books were Apex Drug, Sentry Drug, Genovese, Carls and Medicare-Glaser.

With average margins of 37%, drug chains can afford to promote products such as pliers, screwdrivers, socket sets and hand trucks and still obtain satisfactory margins.

Home improvement products such as paint supplies, rollers, spray paints, rust-inhibitors and metal polishes suffered the same fate that the hardware department did. Paint and paint supplies showed marginal increases of 3.2% in 1983. Sales totaled $60 million

Batteries not down

Batteries ran a close second to automotive supplies last year in running up the biggest sales increase from the previous year. At the close of 1983, battery sales stood at $137.6 million, up 7.5% over 1982. Batteries accounted for nearly 26% of the DIY department sales.

The increase in battery sales also came during a year when many of the new toy introductions did not require batteries. However, sales of batteries for radios, tape players and calculators were extremely good and offset any reduction in demand for batteries in toys.

Battery sales also received a shot in the arm from the growing demand for miniature "button" cell batteries used in a variety of consumer electronics, cameras and watches. Button cells and triple A batteries currently account for 12% of all battery sales and are expected to grow over the next few years. Double A batteries with 45% of the category's sales, followed by D size and C size with 18% and 16%, respectively, are the leading sellers. Buyers also noted growing interest in the rechargeable battery category. However, retailers believe that manufacturers will still have to do a better job educating consumers about the advantages of rechargeables before they become a factor in the overall category sales.

Food/beverage sales top $1 billion

Strong gains in sales of alcoholic beverages and snack foods helped drug retailers register a 7.7% increase in the food and liquor category last year.

Overall, sales of grocery, soft drinks and alcoholic beverages rose to $1.1 billion last year. That represents approximately 4.5% of all chain drug sales.

Liquor and wine contributed nearly half the department's total sales volume in 1983. The 8.3% increase in the liquor and wine segment was bigger than the increases generated by any other segment in the food and liquor department. All told, liquor and wine sales totaled approximately $531 million in drug stores last year, or 47% of category sales. This, of course, is even more impressive considering that not all states allow alcoholic beverages to be sold in drug stores.

But just as consumers have come to expect to see food items in drug stores, many buyers say, the same is now true of alcoholic beverages. Given the choice of making a separate shopping trip to a liquor or package store to purchase a bottle of wine, retailers say a consumer will be just as inclined to pick up the item in a drug store as long as the price is reasonable.

Because of the multitude of state and local laws that dictate how drug retailers can merchandise and advertise alcoholic beverages, turns can average anywhere from the industry average of nine to 10 turns a year to a high of 40 to 60 turns.

The other major component of the alcoholic beverage segment, beer, also did well in chain drug stores last year. While most chains use beer in much the same manner they merchandise high velocity grocery items—as a traffic draw—a number of chains have begun introducing permanent beer departments in their stores.

In 1983, chain drug beer sales amounted to $73 million, up approximately 7.3% from the year before.

SPECIAL
5⁹⁹

Liquor and wine, which accounted for 47% of the food and liquor department's total volume, generated sales of $531 million in drug stores last year.

1983 Food/liquor department highlights

Chain drug food/liquor sales	$1,127,773,000
1983 percentage gain	7.7%
Percentage of total chain drug sales	4.9%
Typical gross margins	15% to 20%
Industry gross profit yield from food/liquor last year	$170,-$225,000,000
Average no. of annual dept. turns	12

1983 Food/liquor department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Liquor/wine	$530,690	+8.3	47.1
Soft drinks	160,419	+6.9	14.2
Nuts	91,787	+7.9	8.2
Snacks/cookies	83,194	+7.8	7.4
Beer	72,976	+7.3	6.5
Canned goods/ condiments	51,982	+8.1	4.6
Dry groceries	44,631	+6.3	3.9
Other foods*	92,094	+6.1	8.2

*Includes health foods

Source: *Drug Store News* survey

Beer accounted for an estimated 6.5% of the food and liquor department sales in drug stores last year.

Another category in the food and liquor department that is rapidly becoming an everyday section in drug stores is snack foods. For many years snack foods were strictly a deal item for most drug chains. However, many astute drug retailers have seen the similarities between snack foods and candy, which has long been considered a core drug store category.

Snack foods, like candy, generate high profits and turns. One merchandise executive for a Florida-based chain said that snack foods were turning at a rate of nearly 50 times a year. Items like potato chips, corn chips and cookies, retailers say, are just as much an impulse item as candy is.

In the same vein, drug retailers have found that nuts have produced outstanding results both as an everyday item and as a promotional tool. Peanuts, almonds, cashews, mixed nuts, besides featuring high margins when priced at everyday prices and fast turns when sold at promotional prices, pose less problems in terms of dating than most other snack foods. Retailers say that the longer shelf life of nuts has prompted them to expand the space allocated for these products.

Retailers also have become more sophisticated in merchandising snack foods. Many chains have developed snack food departments that rival those in supermarkets. Chains are capitalizing on the high-impulse appeal of both snack foods and soft drink beverages and have begun to cross-merchandise them.

Vendors eye chains

At the same time drug retailers have recognized the potential of snack foods, manufacturers of these products are viewing the chain drug market with heightened interest. Many suppliers have come to view accounts as Walgreens, SupeRx, Peoples and Longs in the same light as they do their supermarket accounts. In some cases, drug retailers say manufacturers have presented programs to them that have been designed specifically for the drug and mass merchandise outlets.

Measured collectively, snack foods/cookies and nuts accounted for nearly 16% of all food and liquor sales last year in drug stores. Nuts alone generated sales of $91.8 million, up 7.9% from 1982, and contributed 8.2% to the category's total volume. Snack foods such as chips, crackers and cookies produced sales of $83.2 million, a 7.8% improvement over the previous year. Snack foods represented an estimated 7.4% of all food and liquor sales.

Thirst quenchers

Soft drinks and juices also continued to grow in importance for many drug chains. While chains have long been aware of the pulling power of a 2-litre soda promotion, many retailers have begun to recoup some of the lost margins on these types of promotions by offering a permanent planogrammed soft drink department.

In addition, by installing coolers in stores whenever possible, some chains have been able to rack up margins as high as 35% on single cans or bottles of soft drinks. But for the most part chains that have introduced permanent soft drink departments are working on margins in the 20% range, which when combined with turns of between 20 and 30 can make the soft drink category "extremely viable" in the words of one buyer.

During 1983, drug chains rang up more than $160.4 million in soft drink sales, 6.9% more than 1982. Overall, soft drinks accounted for a hefty 14.2% of the food and liquor department sales.

Buyers reported that one of the fastest-growing components of the soft drink category in drug stores last year were juices. As Americans have become more health conscious the perceived nutritional value of juices have increasingly appealed to consumers.

Aseptic fan club

Aseptic containers, one of the more novel juice-packaging innovations to come out in several years, caught on in drug stores last year. The new aseptic containers, in addition to being popular with consumers because of their convenience, have also received high grades from retailers who have reported less breakage and greater flexibility in merchandising the aseptics.

As traffic draws, canned goods/condiments and dry groceries rank among the most effective products that drug retailers can promote on a regular basis. Among the more popular food promotions are ketchup, mustard, sauces, dry cereals, cake mixes, instant coffee, tuna fish and canned meats.

By offering these fast-turning items at bargain prices to price-sensitive consumers, drug retailers have been able to preserve their discount image. At the same time, selling food on an in-out basis can enable drug chains to prevent further erosion of the H&BA and OTC sales to supermarkets.

Last year dry groceries generated sales of $44.6 million in drug stores, an increase of 6.3% over the previous year. Canned goods/condiments grew at a faster rate in 1983, with sales increasing 8.1% to nearly $52 million.

However, while grocery products are primarily promotional products for many drug chains, interest in full-line convenience food departments has not diminished. In fact, more chains than ever are testing and rolling out convenience food departments.

The key to successful mini-combo food units, retailers say, is not to compete with supermarkets in pricing or selection. Chains like K&B, Walgreens, Peoples and SupeRx are offering consumers a wide range of food items but at prices that can provide them with decent margins.

Snack foods and nuts collectively represented 16% of department sales.

1984 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PRODUCTS

Upscale products boost photo sales

The addition of upscale 35mm cameras and related products along with film processing and its promotion have resulted in another strong year for drug store photo departments.

The 11.3% increase in photo sales last year kept this category in the top eight drug store departments experiencing the greatest percentage of growth in 1983.

Photo departments accounted for about $960 million in sales for the chain drug industry, a figure that broke down to approximately 4.2% of the sales in a typical drug store.

These departments continue to be successful. Their margins of 20% to 25% combined with above-average turns yield high gross profit dollars. Moreover, the department creates traffic for the rest of the drug store. Each roll of film generates three customer trips: One to buy it; a second to drop it off for processing, and a third trip to retrieve the finished prints or slides.

Within drug store photo departments, film and processing are the two strongest categories, with 1983 chain drug sales of $382 million and $304 million, respectively. Film sales, which increased by 11.3% in 1983, made up about 40% of the entire photo sales category, while film processing, which increased 14.7%, accounted for about 32%.

The most popular film was "still" color, which increased in sales by 15.8% in 1983, and made up almost 53% of film sales. The second most popular film was instant, which made up almost 44% of film sales. However, the increase in sales of instant film was 6.9%, far less than that of still color.

The reason for high sales in these categories is that consumers tend to buy film and have it processed at drug stores more than anywhere else. In fact, the December results of the Third Annual *Drug Store News* Consumer Survey shows that almost half of the respondents bought their film and had it processed at drug stores.

1983 Photo department highlights

Chain drug photo sales	$959,618,000
1983 percentage gain	+11.3%
Percentage of total chain drug sales	4.2%
Typical gross margins	20% to 25%
Industry gross profit yield from photo last year	$192,-$240,000,000
Average no. of annual dept. turns	9

1983 Photo department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Film	$382,195	+11.3	40.0
Still color	200,961	+15.8	21.0
Instant	166,811	+ 6.9	17.4
Movie color	10,413	+ 2.7	1.1
Still B&W	4,010	+10.2	0.4
Processing	304,449	+14.7	31.7
Flashbulbs/flash attachments	174,991	+ 6.4	18.2
Cameras	97,983	+ 9.9	10.2

Source: *Drug Store News* survey

Survey results

Of those surveyed, 43% had their last roll of film processed at a drug store compared to 14% who went to discount stores, and 10% to processing kiosks. The Jack Eckerd Corp., in fact, is one of the top 10 film processors in the United States.

When it came to purchases of film, flash cubes and batteries, 49% chose drug stores as well. This was more than double the 24% who made such purchases at discount stores. Drug store sales of flashbulbs and attachments increased by 6.4% to $175 million in 1983, about 18% of total photo sales.

While it seems natural for consumers to have film processed at the location where it was purchased, chains have been able to encourage sales with attractive promotions, such as giving a free roll of film with every processing order or two prints for the price of one.

During 1983, drug chains were also able to take advantage of the growing consumer preference for 35mm photography.

35mm trend

This signals a trend, because just five years ago such items were scarce in drug stores. At that time, those who purchased cameras at drug stores steered away from 35mm models because they were complicated and more expensive.

However, with the advent of simplified 35mm cameras and the availability of lower-priced models there has been a boom in 35mm photography. Another reason for the trend is an increased awareness of the better 35mm photo quality, which some say was sparked by comparing 35mm pictures with those produced by the Disc.

Ironically, the introduction of the Disc in 1982 helped revive sagging camera sales that year and boosted film-processing sales. But now that many consumers are turning away from the Disc and 110s in favor of better quality.

As a result of this trend, drug store buyers have been increasing their stock of 35mm cameras, particularly those inexpensive ones, and the needed film and other products. Many are placing less emphasis on the Disc and the 110.

Some chains reported they had been particularly successful with low-end 35mm cameras advertised at promotional prices as low as $29.95 during holidays such as Christmas and Mother's Day.

Camera sales rise

The total sales of cameras increased by 9.9% in 1983 to about $98 million—about 10% of all photo department sales.

While drug retailers see the 35mm market growing, many buyers have been careful not to try to compete with camera stores by offering higher-priced cameras or those that require extensive sales assistance. However, some chains do carry cameras that cost as much as $200.

And even though there is a shift toward 35mm cameras, many buyers say the Disc and 110 remain viable products for drug stores. Some say the drop in sales of these cameras has mostly been experienced by camera stores and mass merchandisers. In addition, some buyers report that although they have experienced an increase in sales of 35mm items, it has not been at the expense of Disc or 110 sales.

While the Disc and 110 still seem popular at drug stores, at least one buyer pointed out that consumers no longer seem willing to pay the premium price for such cameras or instant film.

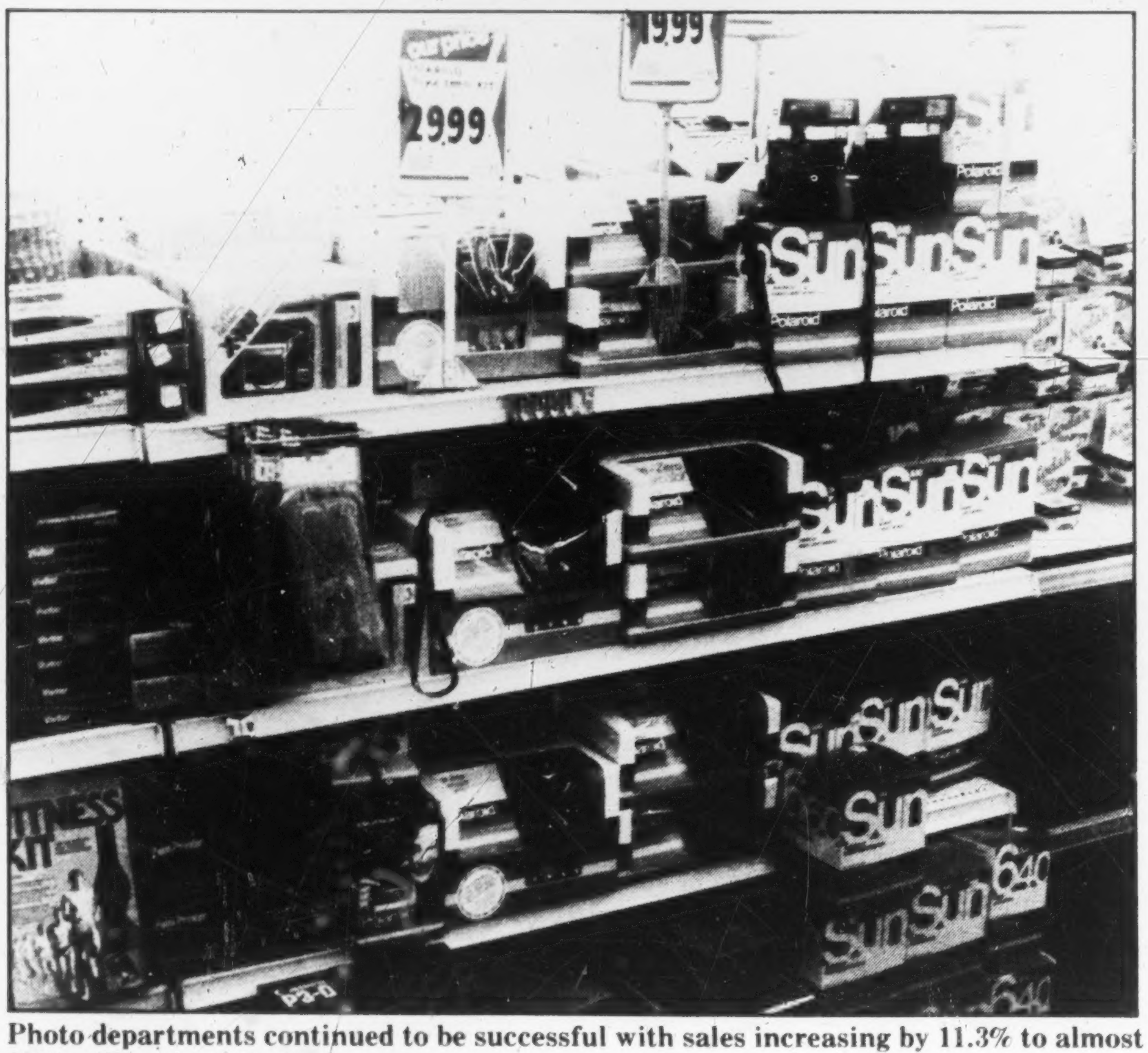


Photo departments continued to be successful with sales increasing by 11.3% to almost $960 million in 1983.

ECKERD
EXPRESS PHOTO

The ever-popular drug store film processing departments flourished in 1983 with an increase in sales of 14.7% to over $304 million.

Candy sales rise 12.5% in '83

Recovering from the 1982 Halloween product tampering scare that caused candy sales to plummet between 40% and 50%, this category made a strong comeback in drug stores last year.

Sales increased by 12.5% in 1983—a sweet contrast to the 5.3% increase registered in 1982. Total sales rose to $783 million last year, the same level as before the tampering scare.

Candy made up 3.4% of total chain drug sales in 1983 and accounted for between $195 million and $235 million in gross profit dollars. Candy typically averages 25% to 30% gross margins and 5.5 turns per year.

While the category is healthy now, retailers were doubtful during the height of the tampering scare that holiday candy sales would ever return to normal. However, a combined manufacturer-retailer effort successfully freshened sales. That effort included a public information program undertaken by the National Confectioners and the Chocolate Manufacturers Associations along with aggressive marketing and merchandising campaigns by individual manufacturers such as Hershey, Mars, Peter Paul Cadbury and Whitman's Chocolates.

At a local level, retailers also took advantage of generous co-op advertising dollars. Sales for bagged candy, the most common Halloween packaging, rose to $295 million in 1983, a 13% increase. The increase reported in 1982 was only 5.3%. Bagged candy accounts for about 38% of all candy volume. Sales for Halloween bagged candies alone can account for between 7% and 10% of a department's average volume.

1983 Candy department highlights

Chain drug candy sales	$782,948,000
1983 percentage gain	+12.5%
Percentage of total chain drug sales	3.4%
Typical gross margins	25% to 30%
Industry gross profit yield from candy last year	$195,-$235,000,000
Average no. of annual dept. turns	5.5

1983 Candy department productivity

Category	Total sales (add,000)	% of increase	% of dept. sales
Bagged	$295,295	+13.0	37.7
Boxed	155,359	+11.4	19.8
Bars	233,696	+13.2	29.8
Chewing gums	83,437	+12.1	10.7
Others	15,161	+ 4.9	1.9

Source: *Drug Store News* survey

Bar sales up

Sales of candy bars, which account for about 30% of all candy sales, went up 13.2% to $234 million in 1983.

This increase reflects the growing popularity of the higher-ticketed (50¢) candy bars. Some retailers explain that this preference is a result of manufacturer advertising. Others say remerchandising of candy departments has also helped. One manufacturer said the growing popularity of expensive gourmet chocolates had influenced consumers not only to see real chocolate as a desirable food, but to accept higher prices for higher quality.

Boxed candy was also a good seller last year. Sales were at $155 million, up 11.4% over 1982. This segment made up almost 20% of the entire category's sales.

Holiday favorites

Boxed candy sells best at Christmas, followed by Valentine's Day then Easter. In fact, this segment did so well in 1983, that Whitman's Chocolates said it experienced one of the best Christmas seasons ever.

The company said that Eckerd Drug sold more units per store of the manufacturer's most popular boxed candy—the Whitman's Sampler—than it had during the past. Thrifty Drug, Genovese Drug and Gray Drug Fair also posted strong Christmas candy sales gains. A Whitman spokesman said it appears that the trend is continuing in 1984 with record-breaking Easter sales for the company.

While chocolate is still the king of candy, retailers reported gains in other confectionary items. Gum, for example, had a healthy increase of 12.2% over 1982. Sales were over $83 million, about 11% of the entire category.

Buyers also reported increased sales of such nonchocolate confectionary items, typically rolled candies, jelly beans, licorices, gums and mints. Some said increased sales could be attributed to the growing popularity of seasonal candy sets.

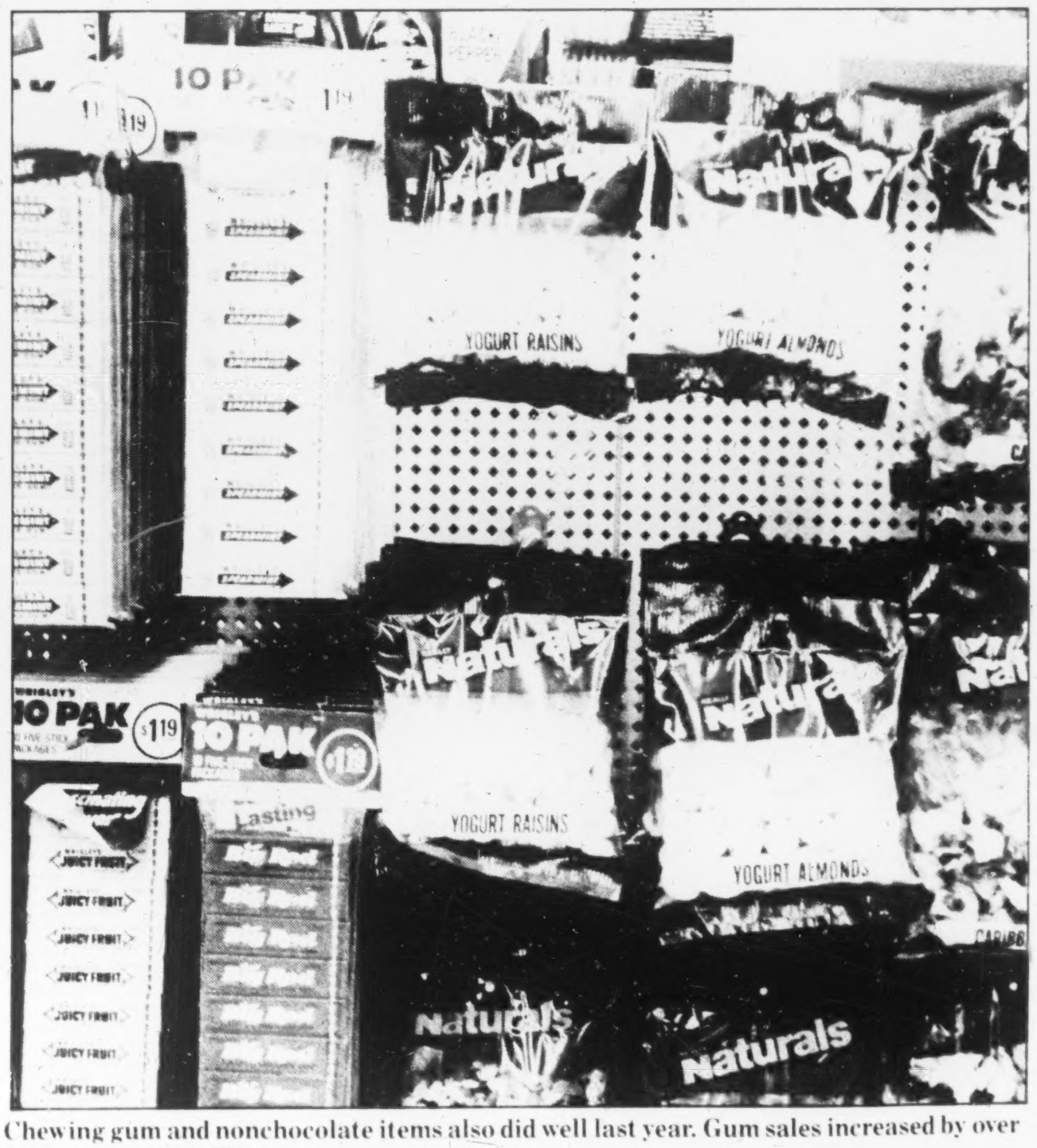
A number of chains, in recent years, have increased their emphasis on these items during the summer months when demand frequently falls off for chocolate products because of the heat. From June through September, many buyers said their merchandising emphasis is on nonchocolate items.

The sale of nonchocolate products increased by 4.9% in 1983 to $15 million. This is about 2% of the entire candy category.

Sales of boxed candy, a favorite at Christmas, Valentine's Day and Easter, increased by 11.4%, to $155 million.

ARBOR
ALL
VEND

Candy made a healthy recovery from the 1982 Halloween tampering scare with sales rising to $783 million last year, a 12.5% increase.



Chewing gum and nonchocolate items also did well last year. Gum sales increased by over 12% to over $83 million.

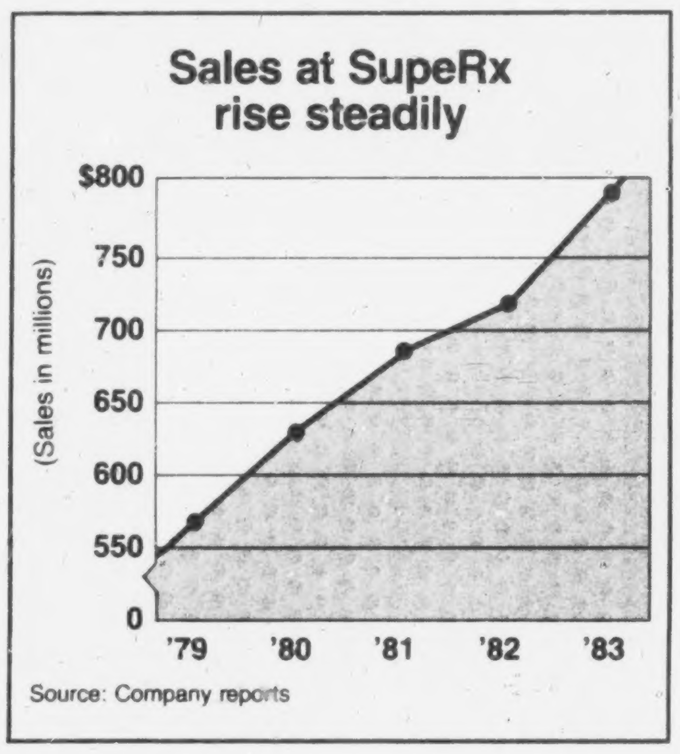
SupeRx clustering plan pays off

CINCINNATI—The SupeRx Drug Division of the Kroger Company turned in a strong financial performance in 1983, fueled by improvements in marketing and distribution strategies.

For the year ended Jan. 31, operating profits were up 80% to $27.2 million while sales increased 10% to $790 million. Parent Kroger Co. did not do as well. Net earnings for the year declined 34% to $127 million even though sales increased 3% to $15.2 billion.

In addition to the 606 SupeRx stores operated at year end, Kroger also operated 1,200 Kroger food stores, 226 Dillon stores and 352 Dillon convenience stores.

Nineteen eighty-three was the second year in a row SupeRx performed particularly well for Kroger. Last year the chain turned in a 133% increase in pretax operating profits on a sales hike of just 5%. But last year's profits also included a $4.3 million one-time gain from the sale of 21 Houston area stores to Walgreens.


Sales at SupeRx rise steadily

Source: Company reports

SupeRx's 1983 financial performance seems to indicate that the chain's management has found a long-term key to growth. Part of the improvement was due to the elimination of stores in underdeveloped markets, while the rest was due to better support strategies for existing stores.

Pattern abandoned

SupeRx has completely abandoned its earlier haphazard pattern of growth, which spread the chain too thin in too many markets. Today the chain is busy "clustering" stores in its major markets, seeking the economic efficiencies that come once a chain has adequate population density.

Just a few months ago, management opened its third regional warehouse in Bluffton, Ind., making it possible for the chain, for the first time, to operate a central distribution system. All SupeRx stores now receive service from the warehouse, and approximately 70% to 80% of the store mix flows through the distribution centers.

In March, Kroger reorganized its buying department so that all replenishment orders are now made through the centralized warehouses.

SupeRx's management anticipates a $20,000 a year per store savings once the system has been in effect about a year. That translates into a $12 million savings for SupeRx plus another $24 million for Kroger's food stores.

Costs lowered

For the past two years, SupeRx has been steadily trying to lower overall acquisition costs while simultaneously improving turns, and in some highly saturated markets like Cincinnati, that goal has been accomplished.

In those markets, SupeRx has launched aggressive Rx and print ad campaigns stressing low everyday prices and the competence of the chain's pharmacists.

In 1984, the company will continue to open new stores, but the strongest emphasis will be placed on remodeling. SupeRx plans to remodel at least 50 and possibly 100 stores in 1984 compared to 20 in 1983. It hopes to open 20 to 30 new stores in 1984, compared to 50 in 1983.

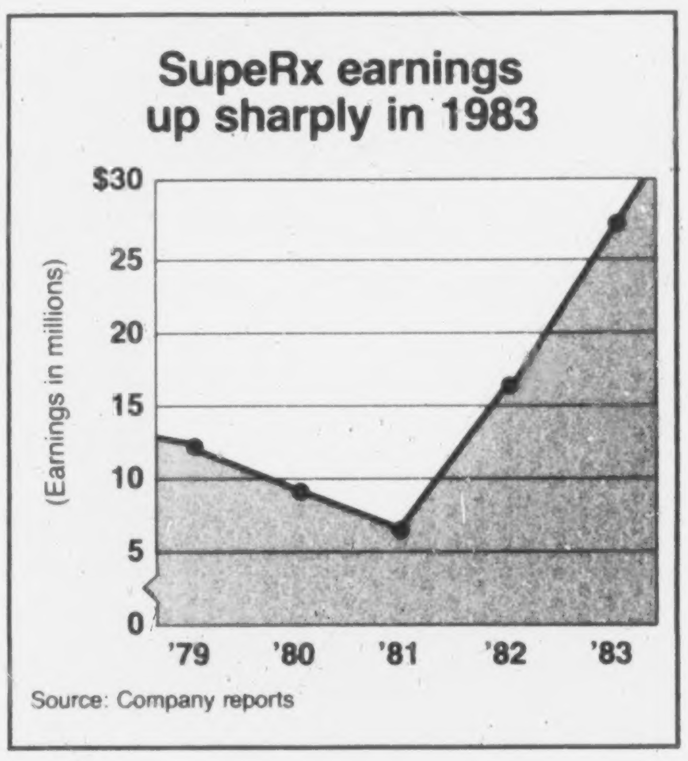
The remodels are not just refurbishments, but major upgrades that include new graphics and new departments.

SupeRx will also continue to expand its food and drug combo stores. The chain had 19 combos at the end of 1983, and management plans five more for 1984. SupeRx liquor stores will also be expanded. Five more will probably be added in 1984 for an estimated year-end total of 23.

SupeRx also operates five deep discounters under the name Drug World, but this concept is not yet a growth vehicle for the company.

There will also be a handful of Optical Centers opened in 1984. there are about 45 in the chain now. SupeRx is also opening drug/food convenience stores in select markets.

There are also a handful of drug stores with delis and one with a restaurant, and if these experiments ultimately prove successful, the formats could be expanded.


SupeRx earnings up sharply in 1983

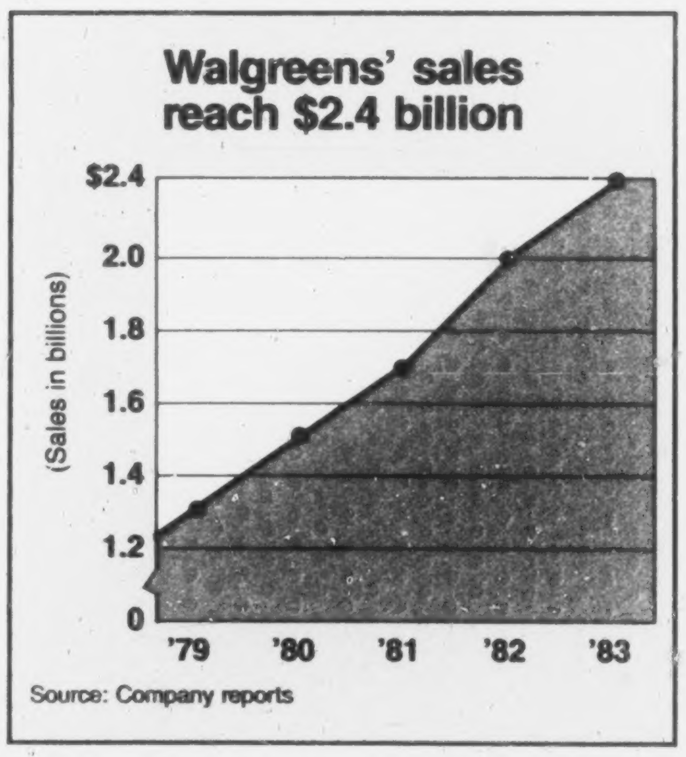
Source: Company reports

Walgreens expansion marches on

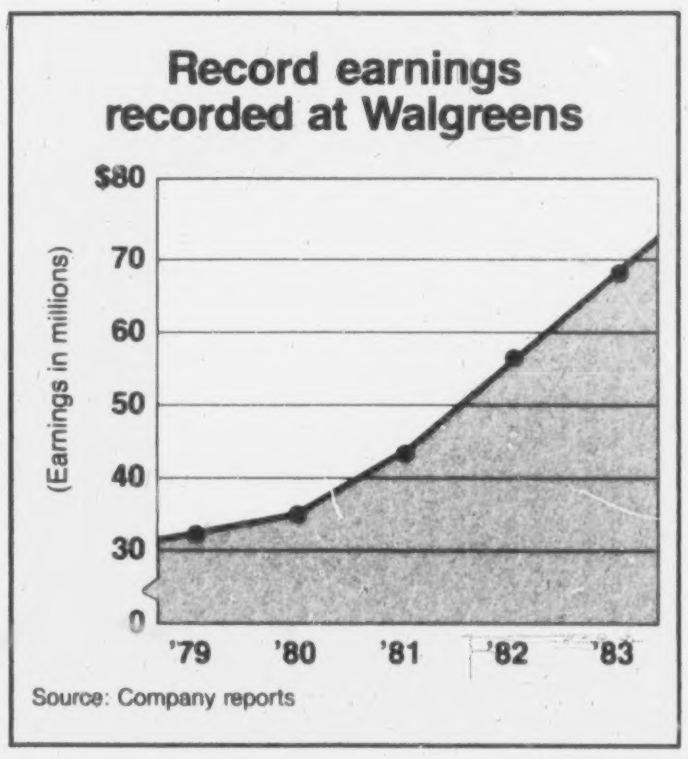
DEERFIELD, Ill.—Walgreens will hit an important milestone this summer as it unwraps its 1,000th drug store. The mark will be reached with the opening of a new unit right where the chain got its start—Chicago.

Reaching 1,000 units this year is just one part of the chain's steady and calculated growth pace. During fiscal 1983, ended Aug. 31, Walgreens opened 67 new drug stores for a total of 941. For 1984, the chain has set its sights on 80 new drug outlets. It's all "growth according to plan," says the chain's president Fred F. Canning.

Established Walgreens markets will receive the bulk of new store activity. However, Walgreens did announce it would seek new markets including the surprise announcement that the chain will increase its presence in New York City, a market from which the chain had been retreating. Calling the Northeast one of the "most underchained markets in the country," chairman Charles R. Walgreen III said Walgreens would open in four new locations in the "Big Apple." The first should open later this fall in Brooklyn.


Walgreens' sales reach $2.4 billion

Source: Company reports


Record earnings recorded at Walgreens

Source: Company reports

Additional expansion is brewing in Chicago, including heavy penetration into the Loop, where there are currently six units with plans for a seventh. Other markets Walgreens feels can support more stores are the San Francisco Bay Area (where 11 units will open this year), Milwaukee, St. Louis, Denver and the states of Texas and Florida.

Expansion funds

Walgreens continues to handle expansion primarily from internally generated funds. Last year $51 million was set aside for expansion. The company hopes to add a minimum of 8% of selling space each year.

Remodeling is also important, and over $22 million has been budgeted for remodels in 1984. Last year, 55 stores were remodeled; 70 will be updated this year. Walgreens reports that the rate of sales "dramatically improves following a remodel."

Despite a 59% lower equity income from Walgreens' Mexican affiliate, Sanborns, overall earnings hit a new record of $69.8 million. It was the ninth consecutive year of record sales and earnings for the chain.

Sales last year reached $2.4 billion, up 15.7% from 1982 when Walgreens first cracked the $2 billion mark. The drug store division sales registered a 16.3% gain, aided by Rx sales which jumped 24.7% over last year. LIFO-adjusted earnings rose 24.5% to $69.8 million—double the earnings of just three years ago. Walgreens has realized a compound growth rate of 24% over the past five years.

The chain has made some dramatic improvements over the years. In 1979, its net-to-sales ratio was 2.25%. In 1983 it hit 3%. Each 10th of a per cent of this figure, Walgreens says, adds well over $2 million to the bottom line. In addition, state-of-the-art warehouses have helped lower distribution costs by 29% over the past five years. The company plans to invest $10 million more to upgrade existing distribution centers in Houston and Memphis.

Strong performance

This strong performance has generated healthy dividend growth. Factoring in two stock splits in the past two years, Walgreens has gone from an annual rate of 34 ⅜¢ in 1979 to 60¢ in 1983, a 75% increase.

Walgreens' 941 drug stores each pump out about $2.4 million a year in sales. The average drug store in 1983 was about 9,000 sq. ft. with sales per square foot of $266.

Peoples acquisition is biggest ever

ALEXANDRIA, Va.—The marriage startled the industry.

Imasco Ltd., the powerful Canadian retail holding company, took the hand of Peoples Drug Stores, the 11th largest drug chain in the United States. It was the biggest wedding in the chain drug history.

Although startling, the match was, on reflection, logical. Imasco, whose giant Canadian drug chain, Shoppers Drug Mart, faced limited growth opportunities in its home country, was looking south of its border for a quality acquisition.

And Peoples, with its fast-track growth record and strong management team, fit the bill. The purchase price, at $34 a share, came to $320 million.

Together, Peoples and Shoppers Drug Mart operate more than 1,000 stores, and Peoples president and ceo Sheldon Fantle envisions expansion possibilities that could result in the largest drug chain in North America. Fantle will sit on Imasco's board along with his Canadian drug chain counterpart, David Bloom.

For Peoples, one of the keys to accepting the friendly takeover bid was Imasco's "deep pockets." The Alexandria, Va.-based chain for several years has been moving for ward with a strategic growth plan whose goals is to achieve 1,000 stores, $2 billion in sales, a 3% net-to-sales ratio, four asset turns a year and a 20% return on shareholder equity—all by 1990. Imasco's cash is expected to accelerate the plan.

Another key: Peoples will retain its autonomy. Imasco has said it has no intention of interfering with a company that has been moving in the fast lane ever since Bud Fantle and Adrian Israel came to Washington nine years ago with ambitious plans for their newly acquired drug chain. Today Peoples is No. 1 in the Washington market, and No. 1 or No. 2 in its four other major markets—Indianapolis, Atlanta, Toledo, Ohio and Tidewater, Va.

Last year's operating results show just how far the chain has come in nine years.

In the fiscal year ended last September, Peoples reported a 30% increase in net earnings to $13.7 million from $10.5 million the previous year. Sales for the year increased 15% to $791 million from $688 million. In addition, the chain's net-to-sales ratio moved up to 1.7% from 1.5% on its way to the 1990 goal of 3%.

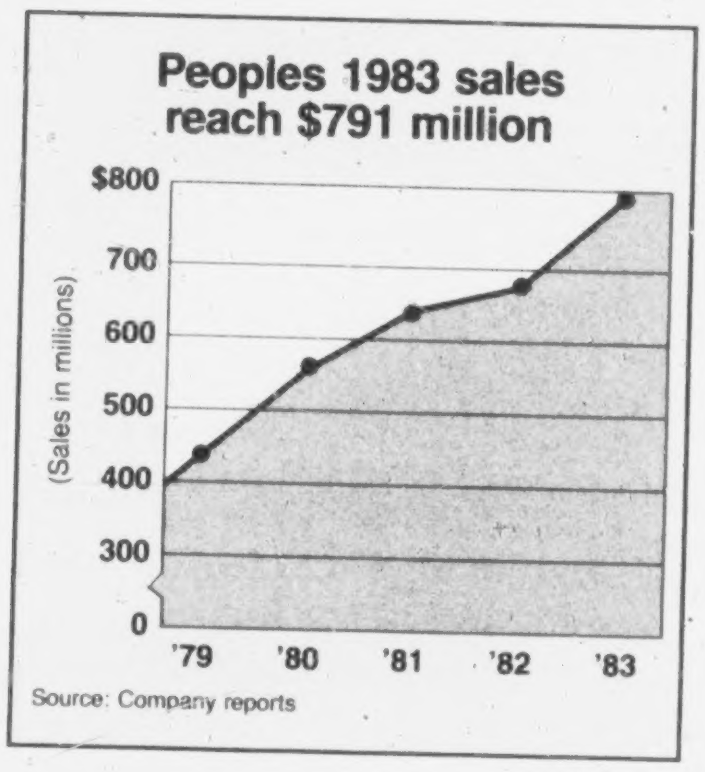
For the first quarter of the new fiscal year, Peoples was off to another flying start. Earnings were up 24% to $6.4 million and sales gained 13% to $282 million.

Part of 1983's successful results can be attributed to the gradual phasing in of Peoples' Advanced Inventory Management System (AIMS). The objective is to automate and simplify time-consuming manual buying and promotion functions. The system provides buyers with computerized information on deals from major vendors, cooperative advertising allowances and how the products move when advertised. It also allows them to buy and plan advertising and promotional programs with their desk-top computer terminals, and it keeps them up to date on inventory levels and special buys for every product in the mix. The system is expected to be fully operational by the end of this year.

The chain's store opening and remodeling programs also helped the results. For the year, Peoples wound up with 575 stores, a net gain of 36. Expansion plans in the current year are even more ambitious. The chain projects 60 new stores and a year-end store count of 630.

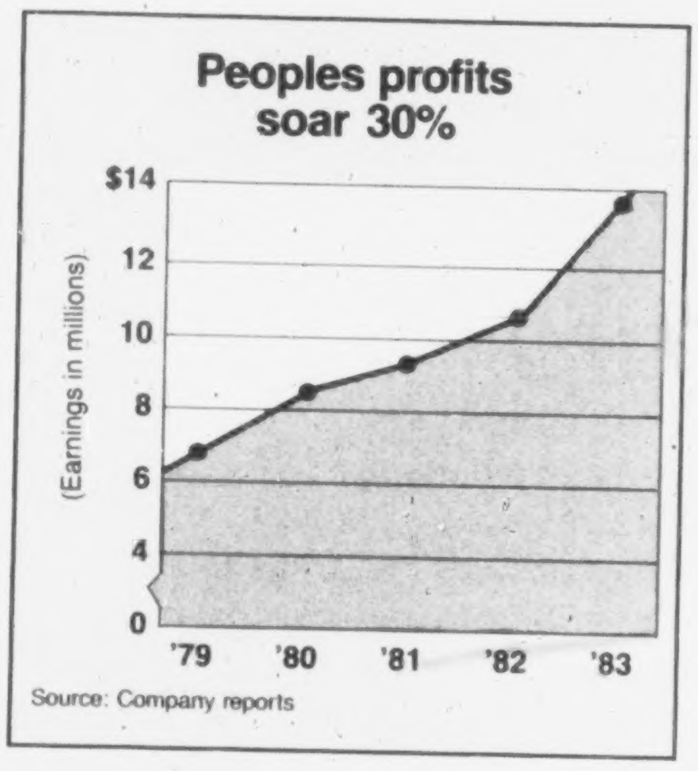
The company's remodeling program also added sales velocity. Peoples' ultimate goal is to consolidate all of its far-flung stores under the Peoples logo. Last year, 43 Haag stores in the Indianapolis area were converted to the Peoples banner and merchandise mix.

In 1983, Peoples began an assault on a new market, Baltimore, which is dominated by Rite Aid. The blitz began with the acquisition of eight Sav-A-Lot stores in November. Six more sites have since been lined up, and Peoples expects to have as many as 40 units in operation within two years. Baltimore is a natural extension, in Fantle's view, because it is a rich market (almost $400 million in retail drug sales) that lies within 50 miles of Peoples' Washington stronghold. The chain's hefty television budget will thus be strained hardly at all in covering the new territory.



Peoples 1983 sales reach $791 million

Source: Company reports



Peoples profits soar 30%

Source: Company reports

Revco poised to hit $2 billion mark

TWINSBURG, Ohio—With sales increasing sharply in the first three quarters, Revco D. S. Inc. should crack the $2 billion barrier by the end of fiscal 1984 this May.

That will be just one more feather in the cap for the world's largest drug chain, which was operating 1,748 stores in 28 states at the close of the third quarter on Feb. 4.

As impressive as its sales growth has been, Revco has been racking up even stronger growth in profits. While sales for the 36 weeks increased 17% to $1.4 billion, net earnings advanced 29% to $52.6 million.

In fact, profit growth has outstripped sales growth in every quarter for the past two years. The result is that the chain's net-to-sales ratio has been moving steadily upward. For the year to date, the company's net margin increased by 0.3 of a percentage point over the previous period to 3.7%.

For the fiscal year ended last May, Revco's profits increased 34% to $66.5 million, while sales rose to $1.8 billion, a 15.3% gain. Of those sales, all but 5.3% were generated by drug stores.

The strong operating results can be attributed to several factors, including one of the tightest cost-control programs in the industry, the continued impact of lower inflation and interest rates, and the dramatic turnaround of the former Skillern stores in Texas.

Like-store sale gains

Sales increases achieved by the chain are not solely the result of new stores. The sales gain in "like stores" (those open a year or more) has been outpacing the chain's own inflation index by a wide margin. In the most recent quarter, for example, like-store sales shot up by 17%, the strongest increase ever. And for the first 36 weeks, like-store sales rose 13.5%.

In the former Skillern stores, the gains have been especially impressive. In the most recent two quarters, the Texas units' like-store sales exceeded the hefty chainwide average.

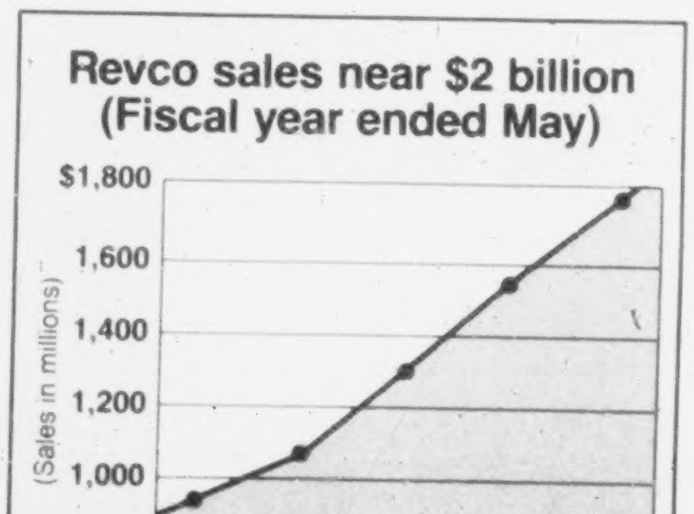
In the first three quarters, Revco has been living up to its hallmark: sustained, rapid growth. At the beginning of fiscal 1984, the chain had set a goal of 110 to 120 new outlets by year end. In fiscal 1983, the company added 74 new stores and closed six. That added 5% to total retail footage, far below the chain's 10% standard. But with a rekindling of activity by shopping center developers, Revco laid out a more ambitious growth plan for the current year.

Strongest growth at Odd Lot

The strongest growth has come from Revco's Odd-Lot stores. Odd-Lot, a joint venture with Tangible Industries Inc., is an off-price retail chain that specializes in manufacturer overruns and discontinued brand-name merchandise. At the end of fiscal 1983, there were 11 of the 5,000-sq.-ft. stores operating in Florida and Michigan. By the end of the third quarter, the count had risen to 25.

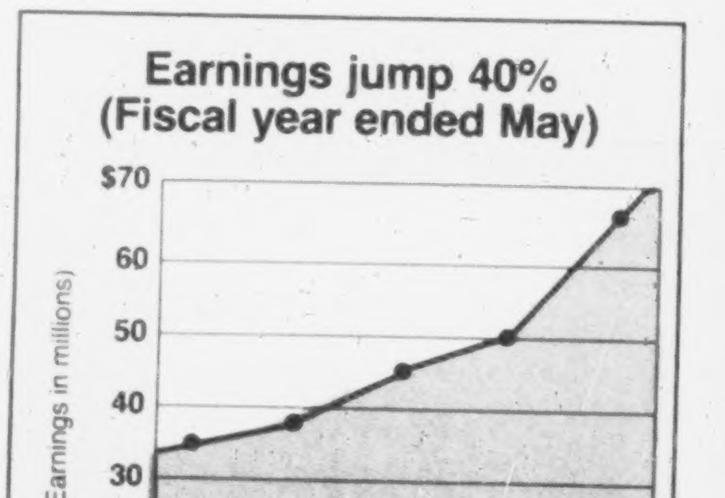
The stores are appealing to Revco, because while they offer consumers deep discounts they also yield gross margins in the 40% to 45% range. A typical Odd-Lot generates $1.5 million a year in sales.

Revco has moved more slowly with its other diversification into off-price retailing, Get It For Less, a deep-discount drug store that opened last year in Memphis. Like other deep-discount units, Revco's 23,000-sq.-ft. store operates on margins considerably below the average for drug stores.



Revco sales near $2 billion (Fiscal year ended May)

Source: Company reports



Earnings jump 40% (Fiscal year ended May)

Source: Company reports

Diversification ups Thrifty's profits

LOS ANGELES—When Thrifty's sales increased 5.5% in fiscal 1983 (to $1.188 billion), compared to 6.8% in fiscal 1982 ($1.126 billion), Thrifty watchers expected a profit rerun of 1982 when net income increased 3% (to $18.3 million).

However, profits galloped to a gain of 23% in 1983 (to $22.5 million), leaving the pundits talking to themselves.

However, there is no mystery to the profit breakaway. It can be attributed to stellar performances by Newman Importing, Big 5 Sporting Goods, and to cost-reducing electronic programs.

Acquired by Thrifty in November 1973, Newman Importing recorded a compounded growth of 17.8% in sales, and 21% in profits in fiscal 1983. In the past 10 years, sales have increased five times; profits, seven.

Big 5 was acquired in March 1971, when it operated 18 stores. Big 5 now has 67, and in fiscal 1983, it had a compounded growth of 23.6% in sales; 26.2% in profits. In the years since Thrifty acquired Big 5, sales have increased 14.2 times; profits, 18.3.

Crown profitable

Crown Books is another profit center. Thrifty and Dart Drug of Washington, D.C., each own 34% of Crown. As of fiscal 1983, there were 153 Crown Book stores (78 in California; 38 in Washington, D.C.; 26 in Chicago, and 11 in Houston. By August 1984, 180-190 Crown Book stores should be operating, and 215 to 225 by August 1985.

Trak Auto West is another joint venture with Dart (Thrifty owns 50%, Dart 50%). Profit-wise, Crown contributed but Trak Auto West took away. Trak's equity losses for the first quarter of 1984 (ended Nov. 30, 1983) exceeded Crown's income by $800,000.

Start-up costs, plus a new warehouse in southern California, drained Trak's profit dollars. As of March 1984, Trak operated 38 stores. By the end of the current fiscal year, the total count should reach 70 to 80.

Both Crown and Trak are deep-discount operations. They carry limited inventory and undercut competition severely (35% off best sellers at Crown; 35% to 51% at Trak). However, other book chains are matching Crown's discounts on best sellers, so a profit squeeze could be in the wings.

Pharmacy slips

Pharmacy has been a thorn in Thrifty's profit side for many years. Fiscal 1979 was the first time in 50 years that Thrifty's prescription department (accounting for 10% of store volume) made money. But Thrifty failed to sustain the pace, and slipped back into the red. Prices have been restructured because Thrifty has not been as competitive as Sav-On, Longs or Pay Less.

Thrifty's top officials attribute much of pharmacy's profit-blight to the high wage-benefits of the union contract. Claiming that Thrifty pays the highest in the nation for both pharmacists and clerks, chain execs say most of their competition is nonunion and therefore realizes huge cost savings. Thrifty also maintains that if the chain were nonunion, it could increase its profit margins 2% to 3%.

Thrifty hopes to remove some of the cost differential by increasing productivity through its computerized pharmacy terminals. Thrifty has ordered 350 IBM Series One standalones. Plans call for 50 installations in fiscal 1984; 100 in 1985, and 150 in 1986, with the rest to be in place by 1988.

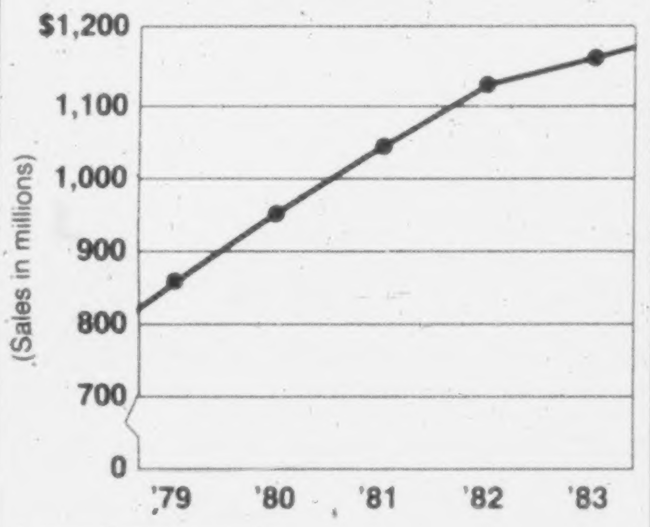
Thrifty plans to open 18 new stores in 1984 vs. 11 last year. Thrifty calls its prototype "Perfecto." It is 18,000 sq. ft. overall, with 15,000 sq. ft. of selling. At the end of fiscal 1983, Thrifty operated 537 drug stores: 295 in southern California, 155 in northern California and 87 in Arizona, Idaho, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming.

In fiscal 1984, 49 stores will be remodeled in the Perfecto image vs. 23 in 1983. Thus, by the end of August 1984, 60% of the drug stores will have been remodeled.

Thrifty is acquiring 48% equity interest in the 12-story IBM building on Wilshire Boulevard in Los Angeles.

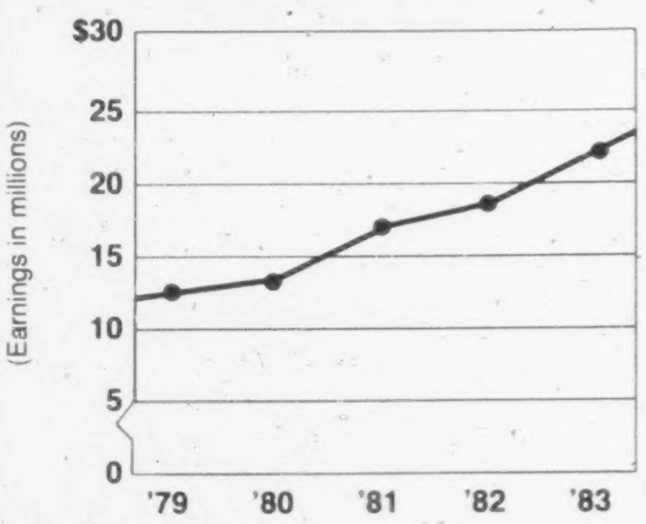
The new building will increase Thrifty's office space from its present 40,000 sq. ft., to 105,000 sq. ft.

Thrifty Sales increase 5.4%



Source: Company reports

Thrifty earnings rise 22% in 1983



Source: Company reports

SDM adds to '83 laurels in '84

TORONTO—Shoppers Drug Mart didn't lose any momentum in fiscal 1984 after reaching the climactic $1 billion sales level for the first time in 1983.

The Canadian chain, in fact, is well on its way to chalking up another year of record sales and earnings. Through the first nine months of fiscal 1984, SDM recorded systemwide sales of $978.7 million (Canadian), up nearly 14% from sales of $860.5 million (Canadian) generated the previous year.

Revenue for the first nine months of fiscal 1984, which excludes sales by SDM stores but includes franchise fees and other income, was down approximately 10% to $47 million from $52.7 million during the first three quarters of fiscal 1983. However, operating income for the first nine months was up 19% to $25.9 million from $21.7 million from the same period last year.

If anything, fiscal 1984 has proved to be a more momentous year than the previous one for the Willowdale, Ontario-based chain. In addition to its strong financial showing thus far, fiscal 1984 has contained a number of other highlights, including the launch of a new generic product line, a major promotion and advertising campaign tied to the 1984 Olympics and a turnaround in the chain's 30-store Florida division.

But perhaps the biggest development for SDM in fiscal 1984 was the announcement that the chain's parent company, Imasco Ltd., planned to buy Peoples Drug Stores. SDM's chairman, Murray Koffler, and the chain's president and ceo, David Bloom, were both active participants in the successful negotiations with the Alexandria, Va.-based Peoples.

Imasco's success with SDM was a major factor in the Montreal-based conglomerate's decision to purchase Peoples. Since becoming part of Imasco in 1978, SDM has more than tripled its dollar sales and more than doubled the number of stores it operates.

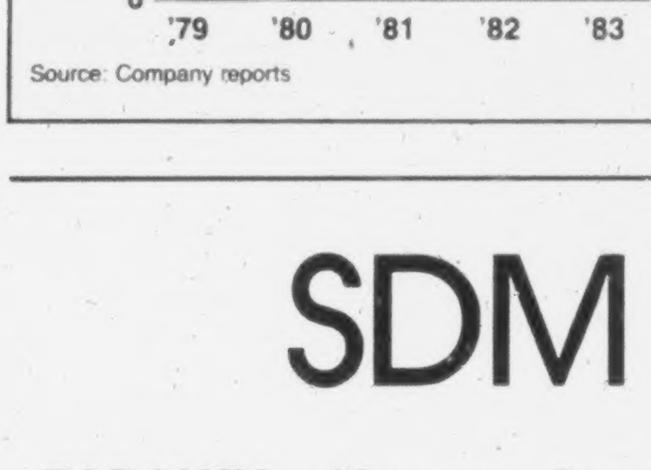
But despite its standing as Canada's No. 1 drug chain, with approximately 28% of the retail drug market, SDM, like many United States drug chains, is increasingly feeling the competition from supermarkets and discount stores.

The chain decided to mount an offensive against Canadian supermarkets this year by introducing a new line of generic products—the first ever by a North American drug chain. These no-frills products, known as Red Savers, are priced 15% to 25% lower than nationally branded products.

SDM is anticipating that the Red Saver line, which includes approximately 44 sku's and its successful Life brand private label program, which consists of more than 550 sku's, will grow to as much as 8% to 10% of the chain's overall sales volume over the next few years. Currently, SDM's private-label products and new generic line represents about 6% of its volume.

SDM also has moved to counter inroads made by Canadian deep-discounters. Until recently, SDM had operated only one deep-discount store, called Shopper Drug Warehouse. However, last month Howie's, a new prototype SDM deep-discount store that initially will be operated by the chain, debuted in Toronto. Plans are to offer the format to high volume SDM franchisees if the results from the test are favorable.

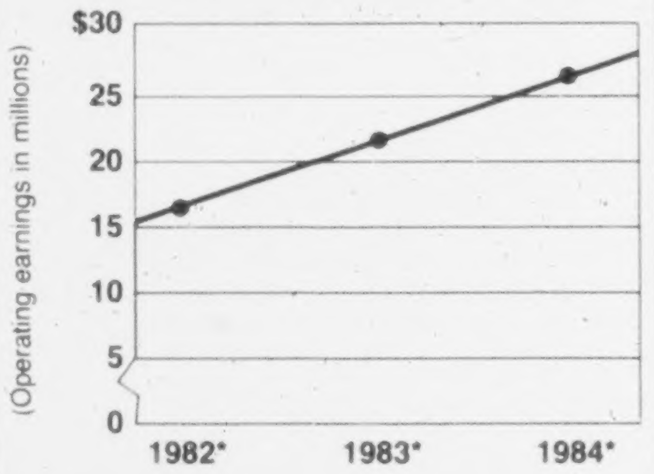
Shoppers Drug Mart 9-mos. sales up nearly 14%



*Indicates first three quarters of fiscal year

Source: Company reports

Shoppers Drug Mart income up 19% for first 9 mos.



*Indicates first 3 quarters of fiscal year

Source: Company reports

Adams weeds units, reaps profits

PAWTUCKET, R.I.—In a year in which most drug chains racked up dramatic earnings gains, Adams Drug turned in a performance, which even by the chain drug industry's high standards, was outstanding.

A strategic plan whereby smaller, less profitable stores were phased out and a greater emphasis was placed on larger full-line drug stores sent sales and earnings to record levels. At the close of fiscal year 1983, ended Dec. 31, Adams' profits soared 56% to $7.1 million from $4.6 million a year earlier.

And despite operating an average 34 fewer stores in 1983, Adams still managed a 5.5% sales increase to $302.1 million from $286.2 million.

Earnings on a per share basis during fiscal year 1983 rose $1.74 from $1.12.

As a result of the strong earnings performance, the chain's net-to-sales ratio increased nearly a full percentage point to 2.4% from 1.5% the previous year.

Like many drug chains last year, Adams' strong performance was due in part to the sudden and welcome drop in the inflation rate, which resulted in lower LIFO charges. LIFO charges in 1983 were $1.1 million compared to $2 million in 1982.

But Adams also took several other measures that had a major impact on its bottom line. These included closing smaller, less profitable stores, carrying less excess inventories and holding constant operating costs as a percentage of store sales.

The chain shuttered 39 stores last year, most of which were in the 1,500-sq.-ft. to 1,800-sq.-ft. range. In 1983 Adams opened six new stores and remodeled 48 existing units.

Major growth vehicle

Adams' Brooks store division continues to be the major growth vehicle for the chain in the 1980's. During fiscal 1983, 17 stores were converted to the Brooks name, bringing to 143 the number transformed during the past three years. By year end, Adams was operating 301 Brooks stores.

By concentrating on the Brooks name, Adams has been able to build and reinforce consumer awareness as well as achieve greater efficiencies in advertising. While the chain's advertising expenditures were held relatively constant last year, Adams increased television advertising for the Brooks stores.

Other Adams operating divisions include 36 Adams stores in Rhode Island, 54 Eckerd units in western Pennsylvania and 24 Whelan and Nescott drug stores in the Metropolitan New York City Area.

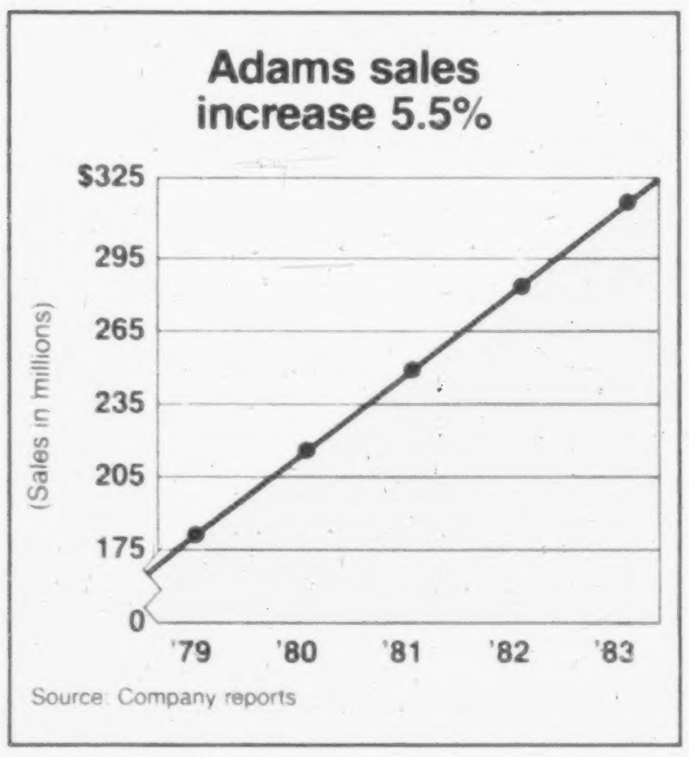
With its emphasis on larger stores that average approximately 6,500 sq. ft. to 7,500 sq. ft., the 51-year-old chain has been able to upgrade and expand such important categories as stationery, greeting cards, candy and cosmetics.

At the same time, Adams has tried wherever it can to install pharmacies in existing stores. Nearly every new and remodeled store brought on-line features a pharmacy. In 1979, 49% of Adams' stores contained prescription departments, and by 1983 that percentage had grown to more than 60%. Currently, two-thirds, or more than 300 Adams stores feature pharmacies. Of the units with pharmacies, approximately 33% of their volume was generated from prescription sales.

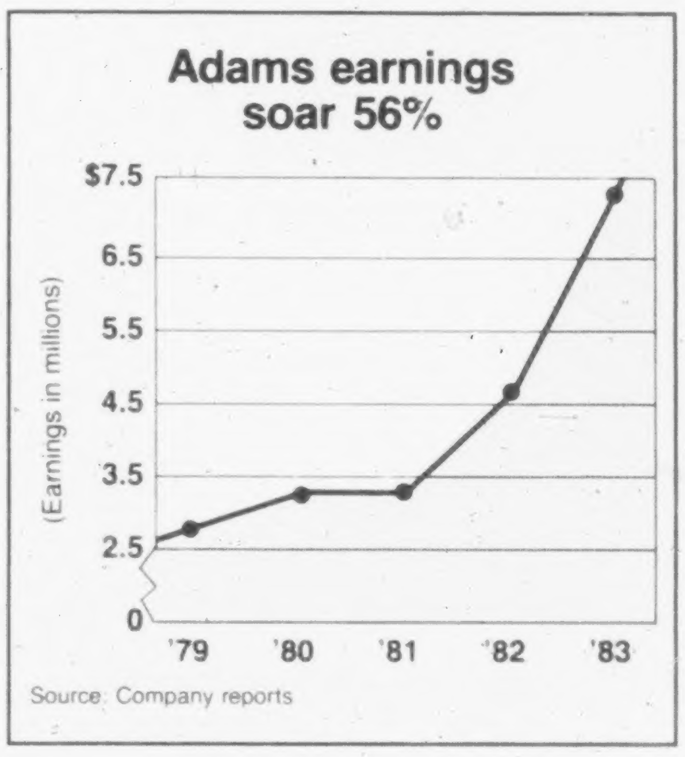
Seven million prescriptions were dispensed from the chain's pharmacies in 1983.

Having closed stores that weren't part of its future plans, Adams may add as many as 25 new stores in 1984. In addition, the chain will proceed with its ambitious store remodeling program.

The consolidation measures enacted during the past few years coupled with impressive back-to-back earnings gains in fiscal years 1982 and 1983 have left Adams in a strong cash position. Chain officials have not ruled out the possibility that Adams may seek a new acquisition this year or branch out into other areas of specialty retailing.


Adams sales increase 5.5%

Source: Company reports


Adams earnings soar 56%

Source: Company reports

American gains slower, but strong

SALT LAKE CITY—American Stores, the giant food and drug retailer, last year told shareholders not to expect fiscal year 1983 increases as "spectacular" as those reported in fiscal 1982.

American was right. Earnings gains were not as strong as in fiscal 1982 when a combination of the company's efforts to streamline operations, a debt-for-equity swap and a lower LIFO charge led to a 40% increase in net income to $90.3 million.

However, the 30% increase in fiscal 1983 net earnings to $117.9 million was by no means a shoddy performance. In fact, super is the word that comes to mind.

American Stores, which operates Skaggs Drug Centers, Rea & Derick drug stores, Skaggs/Alpha Beta combo stores and Acme and Alpha Beta supermarkets, reported that earnings on a per share basis increased 34% to $3.61 from $2.69 the previous year.

Fiscal year 1983 sales advanced 6.3% to $7.98 billion from $7.5 billion in 1982.

For the fourth quarter, American reported earnings of $45.8 million, up 21% from the $31.6 million in the same quarter the previous year. Net earnings per common share rose from $1.19 in the fourth quarter 1982 to $1.46 in the final quarter of fiscal 1983. Fourth quarter sales rose 9.1% to $2.2 billion.

The Salt Lake City-based chain also continued to make steady progress in improving its net-to-sales ratio. Net profit margins rose to 1.5% compared to 1.2% in 1982 and 0.9% in fiscal 1981.

By year-end, American was operating 1,020 food stores; drug stores and food/drug combination stores, down somewhat from 1,027 in fiscal 1982. In 1983, American's operation included 190 Skaggs super drug centers in 20 states, 137 Rea & Derick stores in New York, Pennsylvania and Maryland and 70 Skaggs/Alpha Beta combos throughout the Southwest.

During fiscal 1983, American opened seven combination stores and six drug stores. It closed 10 drug stores in 1983.

Food stores closed

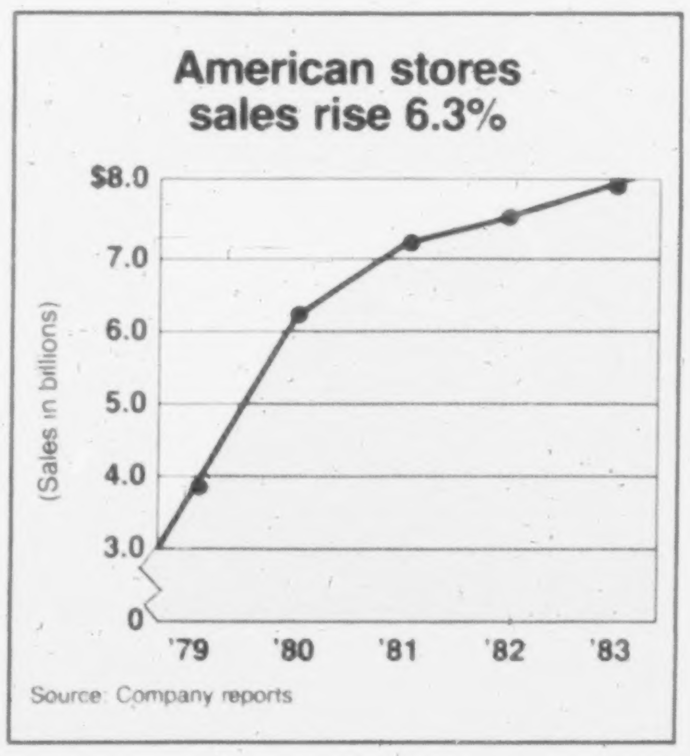
Having shuttered many of its unprofitable food operations, American is poised for expansion in 1984. The company plans to open as many as two combination stores a month during the remainder of fiscal 1984. By 1985, American may open as many as three new combos a month. If the company's projected store openings come to fruition, the chain, by the end of fiscal 1985, will have nearly doubled the number of combos it operates in a span of two years.

At American's annual meeting in June last year, Thomas. W. Field, president of American Stores, told shareholders that he expected to see an acceleration in the expansion of its combination stores, "as rapidly as possibly in areas which will yield the greatest return on investment." In addition to opening more combos, Field said that the company would expand its drug store operations.

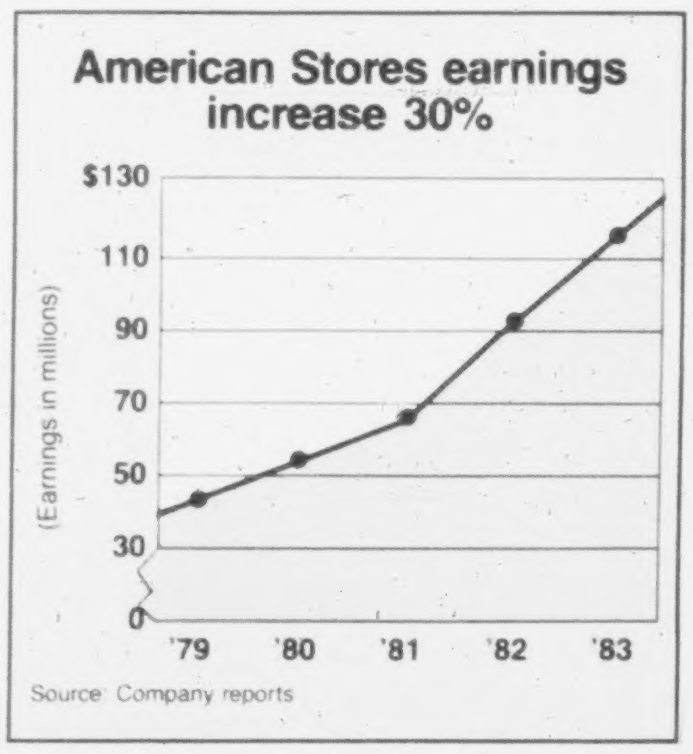
While the company has not commented on which markets it has targeted for combos, some Skaggs observers believe the chain is looking at Dallas, Salt Lake and Philadelphia.

At Rea & Derick, based in Northumberland, Pa., Larry La Rock was named president of the 117-unit chain. It wasn't long before La Rock's imprint on Rea & Derick became apparent. A new 19,200-sq.-ft. prototype in Lancaster, Pa., closely resembled a Skaggs Drug Center. La Rock had been vp and general manager of Skaggs' Irvine, Calif., division.

American's advertising conducted on behalf of its four major divisions will look a little different this year. The company dissolved its longstanding relationship with Eisamin, Johns and Law and transferred its $24 million broadcast advertising account to Bozell & Jacobs.


American stores sales rise 6.3%

Source: Company reports


American Stores earnings increase 30%

Source: Company reports

Cost cuts hoist Perry's bottom line

PONTIAC, Mich.—Perry Drug stores started its second quarter of a century with record results. Net earnings for the year ended Oct. 31, 1983, hit an all-time high of $4.5 million, a 58% increase over the previous year. Earnings per share rose to $1.02 from 73¢.

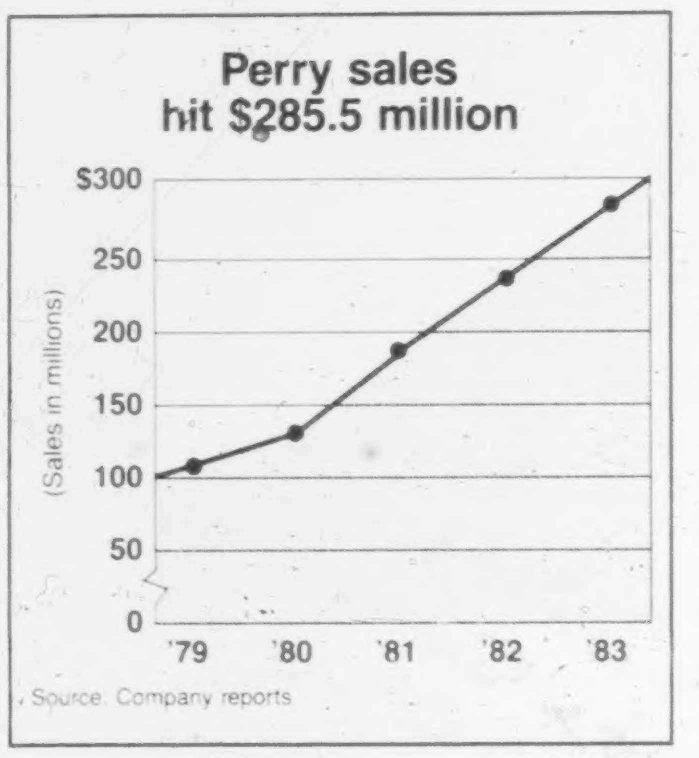
Sales rose 17% at Perry in 1983 to a new record of $285.5 million. With earnings growth outpacing sales growth by more than 3 to 1, Perry's net-to-sales ratio climbed to 1.6% from 1.2%.

The chain reported that its Profit Improvement Program, adopted last year to control expenses, helped boost the bottom line. Additionally, Perry was able to increase sales per store by 12% to $2.3 million. Sales per square foot in the drug stores also increased to $241, 13% higher than the industry average quoted by Perry of $214. Store selling space increased 23% from 1.2 million sq. ft. in 1982 to 1.5 million sq. ft.

The prescription department continues to be Perry's foundation, with 1983 Rx sales totaling $56.4 million, a 35% jump over 1982. The number of prescriptions increased 21% last year to a total of 5.4 billion. Prescription sales accounted for 20% of the chain's overall revenues.

Perry credits its Rx growth to the following factors: expanded and enhanced advertising, a greater number of stores, the chain's competitive pricing, in-store promotions including generic drugs, mailings to physicians, new technology including automated tabloid counters and Perry's new Pharmacy Computer System, which was installed in 10 stores last year and will be on-line in 100 stores by the end of 1984.

In addition to its traditional drug stores and drug and auto units, Perry ventured into two new retailing areas: discount auto parts and deep-discount drug stores. During the year, Perry launched Auto Works, a separate division of freestanding auto parts stores. Ten Auto Works units were unveiled last year.

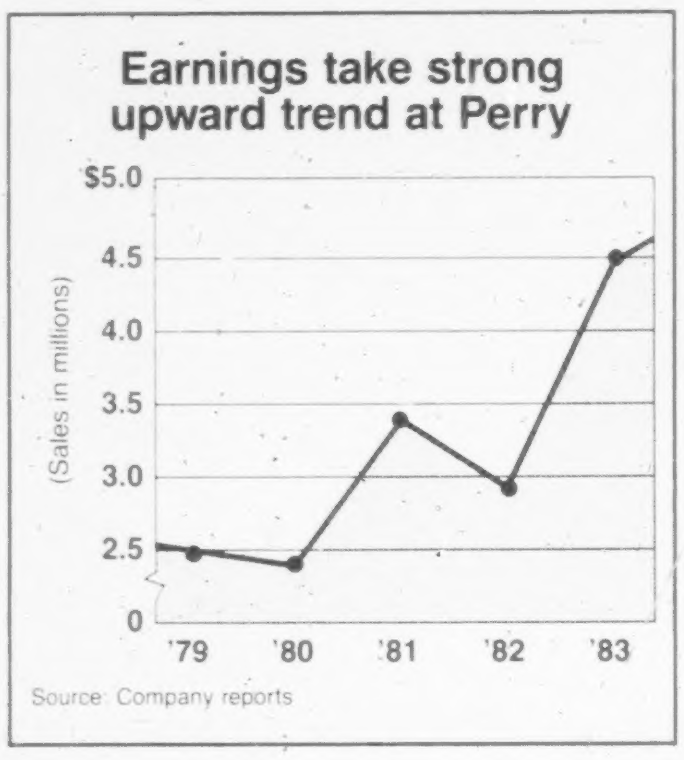

Perry sales hit $285.5 million

Source: Company reports

Perry acquired a 51-store chain of auto stores called Fleenor's, which operates in Indiana, Kentucky and Ohio. It has been integrated as FAS Auto Works and is expected to "make significant contributions to our company," according to Jack A. Robinson, chairman of Perry. Sales in discount auto parts reached 15% of Perry's total sales, compared to 12.5% a year ago. For 1984, Perry plans to open 24 Auto Works units, with Toledo, Ohio, targeted as the major growth market.

Deep-discount units

During 1983, Perry also opened two A. L. Price stores in Michigan. Although the first unit developed in reaction to a competing deep-discounter, the second unit was planned as a discount format. This unit is reportedly exceeding projections and should hit $6 million in sales after one year; that's the figure Perry had thought it would take three years to reach.


Earnings take strong upward trend at Perry

Source: Company reports

A third diversification was recently announced and that is into the $16 billion to $20 billion home health care business. Perry purchased the $2 million Bioanalytical Procedures Inc., a 10-year-old clinical laboratory founded by David Sidhu. The beauty of the purchase, Perry sources report, is that profits are significantly higher in this business than in drug store retailing.

Perry is well on its way to reaching the goals of its five-year plan, which calls for $700 million in sales and more than 300 stores by the end of fiscal 1988. A more far-reaching goal is the $1 billion in sales the chain plans by 1990.

For 1984, Perry expects to reach sales of $360 million, a 26% increase over 1983. Given the expansion rate, the chain expects to increase its capital expenditures for stores from $4.1 million in 1983 to almost $8 million. Perry hopes to open 40 new stores—15 drug stores and 24 Auto Works, which is equivalent to one new store a week for the rest of the fiscal year.

Gray net income upturn still on hold

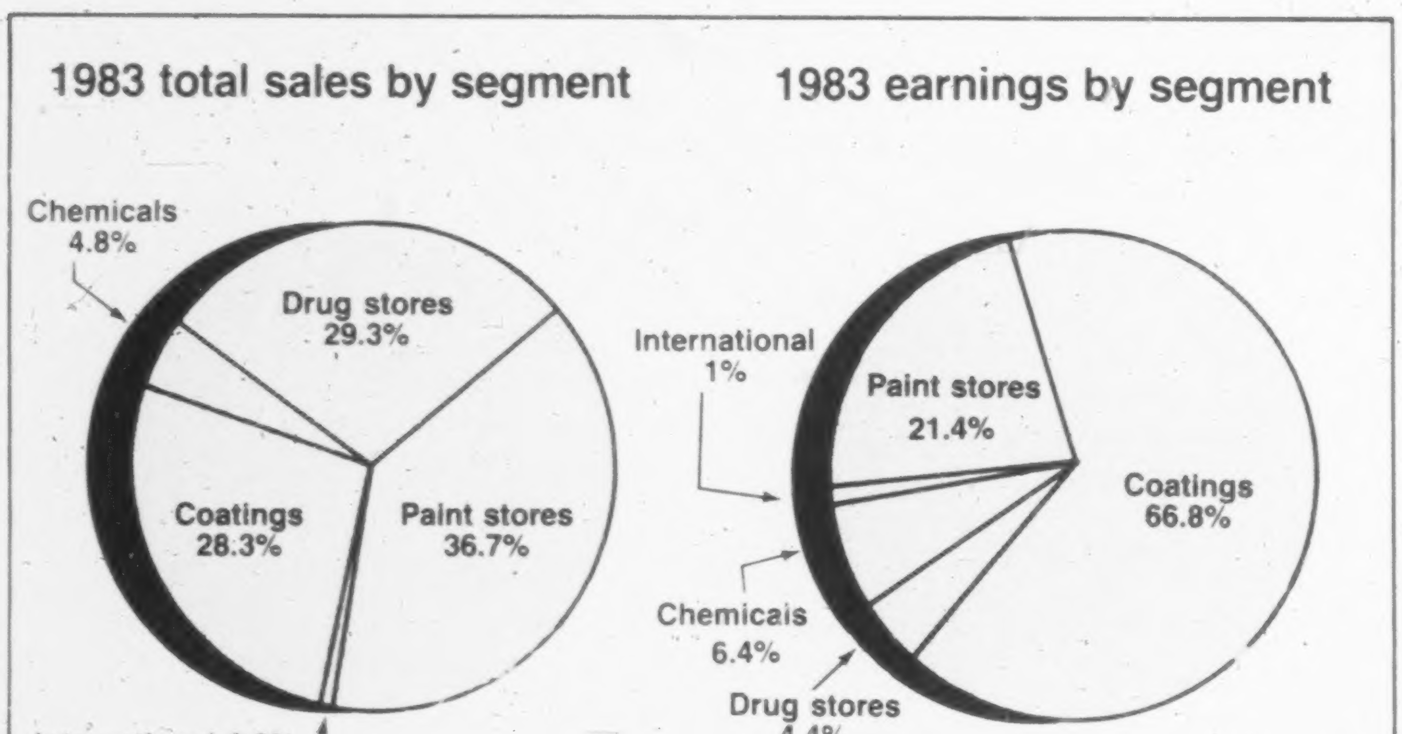
CLEVELAND—Following a brief upturn in 1982, Sherwin-Williams' hopes that a recovery was under way at its Gray Drug Fair division were dashed in fiscal 1983.

The abrupt departure of Al Towle as president and general manager of the 400-unit chain only served to illustrate Sherwin-Williams disappointment with its three-year-long relationship with Gray. In fairness to Towle, who has since been named to head Dart Drug's chain drug division, many industry observers wondered if Sherwin-Williams had expected too rapid a turnaround from Gray under his leadership.

But for the diversified retail and manufacturing concern, it clearly was a decision based on bottom-line results. Through the first nine months of fiscal 1983 Gray posted a 6.4% sales increase. However, operating income during this period fell far short of the goals Sherwin-Williams and Towle had worked out at the start of his stewardship.

Sherwin-Williams reported that Gray Drug Fair increased fiscal 1983 sales by 7% to $577.9 million from $540 million the previous year. But operating income plunged 42% to $5.8 million from $13.8 million in fiscal 1982.

Gray's operating margin slipped from 2.6% in fiscal 1982 to 1% in fiscal 1983.


1983 total sales by segment

1983 earnings by segment

Source: Company Reports

While Gray's sales accounted for 29.3% of Sherwin-Williams' $1.97 billion total sales, the drug division's operating profit represented only 4.4% of the company's net income of $55.4 million. A year earlier, Gray accounted for 13% of the parent's total operating income.

Still, Gray did make progress in a number of areas last year. Towle's management team, which was kept in place following his departure last October, made a number of improvements to the chain's merchandise mix. More emphasis was placed on seasonal merchandise, cosmetics, health and beauty aids and stationery, while such marginally productive categories as soft goods and food service were largely eliminated.

Management recognized the problems that can surface with a chain with the geographic diversity of Gray when strict requirements are applied in the areas of buying, pricing and promotion. The chain subsequently gave new responsibilities in these areas to regional managers and merchandising/marketing managers.

New prototype

Last year, Gray also unveiled a new 12,000-sq.-ft. prototype in Potomac, Md., that has received high marks from chain officials. The prototype, which features a strong graphics package, was designed by the chain to make shopping easier using visually defined departments. While containing an expanded cosmetics department and upgraded merchandise mix, Gray has been able to generate higher turns and sales using 20% less selling space than in previous prototypes.

In addition to strengthening its merchandising efforts, Gray substantially increased its television advertising last year.

Various problems

Despite its various problems, Gray also moved to shore up its presence in two important operating regions during fiscal 1983. In its fiercely competitive mid-Atlantic region, Gray Drug acquired three stores from Action Pharmacies and nine Cavalier drug stores located in Virginia. During May the chain purchased nine former Medco drug stores in southeastern Fla., thus raising its southern store count to 54 units.

Towle's untimely exit last year surprised many people, but the swiftness with which Sherwin-Williams reached that decision has not carried over to the naming of a new successor. The drug division remains under the interim leadership of Carl Bellini, group vp for Sherwin-Williams retail stores division.

Jewel's Sav-On lags; Osco shines

CHICAGO—The Osco drug division of Jewel Companies turned in a shining performance during fiscal 1983, ended Jan. 28, but the Sav-On units were termed "disappointing" by Jewel's chairman, W. R. Christopherson.

Osco, which operates 322 stores in 19 states, generated a sales increase of 14.3% and pretax earnings that rose 19.6%. Sav-On's sales rose only 6.7% while pretax earnings lagged 33% behind the previous year's. Combined, Osco and Sav-On represented 50.3% of Jewel's United States pretax earnings, down from 55.8% last year.

According to Christopherson, total drug store sales were up 11%, but earnings fell as a result of lower profits at Sav-On. The two divisions combined for total sales of $1.8 billion, up from $1.7 billion the year before. Pretax earnings for the drug stores were $62 million.

Jewel's chairman attributed Sav-On's sagging results to several factors, including gross margins that fell below traditional levels, costs associated with installation of new merchandising and distribution systems and start-up expenses for the new food-drug combo program in the San Joaquin Valley in California.

During fiscal 1983, the chain premiered the first of 10 scheduled combos featuring a mix that is 60% items normally stocked in a Sav-On store.

All of these costs, Christopherson pointed out, have been largely absorbed. Therefore, he expects 1984 will be an improved year for Sav-On.

Earnings decline

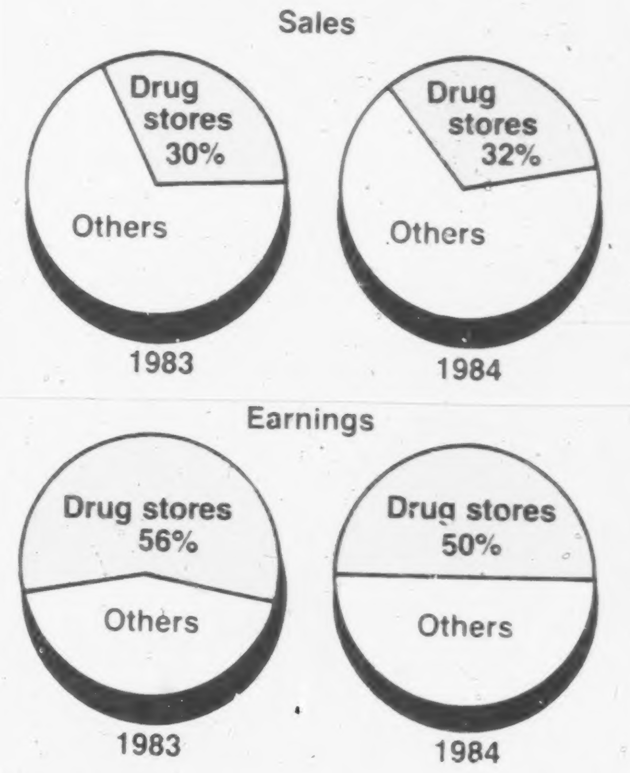
Overall Jewel posted fiscal 1983 sales of $5.8 billion, a gain of 2.7% over sales of $5.6 billion in 1982. Earnings, however, slipped from $88.1 million, or $6.82 per common share, to $83.1 million, or $6.36 per common share. That's a 5.7% decline that resulted primarily in reduced earnings from its equity investment in Aurrera S.A. de C.V. (Mexico). Aurrera sales during Jewel's fiscal year increased 72.1%, below the country's rate of inflation. With the effective rate of translation for the peso decreasing from $1.59 in 1982 to 65¢ in 1983, Jewel's earnings from its equity investment in Aurrera were 50.8% below the 1982 level.

Jewel's supermarket division is hitting snags in the Chicago market, where earnings have been impacted by the debut of discount warehouse stores into the market. Jewel Foods has stepped up its cost control and productivity efforts, and most Jewel store-level employees were asked to accept wage reductions. All savings will be translated into lower retail prices so Jewel is competitive with the warehouse format stores, according to the company.

Emphasis on combos

This means the drug division will be forced to play an increasingly important role for the chain. Jewel will continue its emphasis on the combo format, which brings in the volume and turns associated with a supermarket, plus the higher margins reaped in a drug store. The combo format will be important for Sav-On. The 10 scheduled for the San Joaquin Valley will average 47,000 sq. ft.

The Jewel/Osco combos are slightly larger, averaging 51,000 sq. ft. with 64% of the space devoted to food and 36% to drug. The company also teams up its drug stores with its Star markets, Buttrey Food Stores and Eisner.


Drug stores' contribution to sales and earnings

Source: Company reports

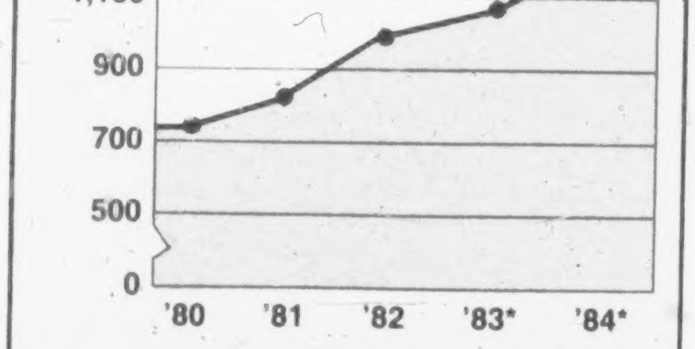
Pay 'n Save shakes off doldrums

SEATTLE—The recession in the Pacific Northwest—one of the most severe in the nation—wreaked havoc with Pay 'n Save's profits in fiscal 1981 and 1982. Nevertheless, there was a silver lining. The recession forced Pay 'n Save to trim down to fighting weight without harming its in-stock position.

Consequently, net income after taxes got a shot of adrenalin in the fiscal year ended Jan. 28, 1984, and jumped 54% (from $19.6 million to $30.1 million) on a sales increase of 12%. Sales were $1.2 billion vs. $1.1 billion. Both sales and profits were restated to include the Schuck's Auto Supply acquisition in a pooling-of-interests transaction.

Sales of the corporation's drug stores (Pay 'n Save and Bi-Mart) paralleled the corporation's performance. Drug store sales rose 11% to $718 million and pretax income increased 58% (from $15.1 million to $23.9 million). Drug store sales responded with the same fervor as other retailing entities in the chain for the same three reasons: solid sales, improved gross margins and good expense control. Drug stores accounted for 59% of the corporation's sales and 42% of the corporation's pretax earnings.

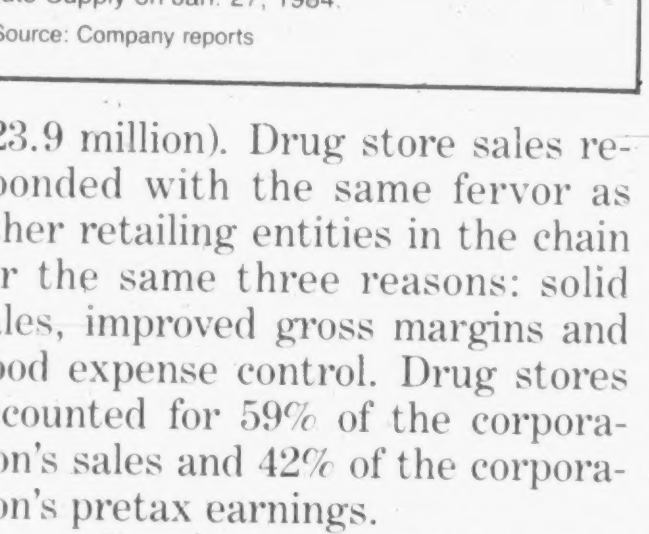
Pay 'n Save sales up 12%
(Fiscal year ended January)



*Sales figures restated to reflect combined results of Pay 'n Save and Schuck's Auto Supply, which Pay 'n Save acquired Jan. 27, 1984.

Source: Company reports

Earnings rebound strongly
(Fiscal year ended January)



*Earnings restated to reflect acquisition of Schuck's Auto Supply on Jan. 27, 1984.

Source: Company reports

Borrowings decline

Another reason for the invigorated performance was the decline of $28 million in average borrowings, as well as declining interest rates.

The fresh flow of profit dollars did something else for Pay 'n Save: it toughened the chain's acquisition muscle—and the Seattle-based chain lost no time using its newfound power.

Pay 'n Save acquired Schuck's, a 58-store pioneer Seattle auto supply retailer, and Northwestern Drug, a long-time wholesaler.

In buying Schuck's, Pay 'n Save joined Dart, Thrifty, Perry and Malone & Hyde, who have diversified into the auto parts market.

Pay 'n Save acquired Schuck's along with an 85,000-sq.-ft. warehouse for approximately $70 million of Pay 'n Save common stock.

For the fiscal year ended Jan. 31, 1983, Schuck's had sales of $48 million, and for the first 40 weeks of the current fiscal year, Schuck's generated sales of $45.7 million, up 22% from the comparable period a year ago.

Schuck's performs

But what makes Schuck's a prime prize for Pay 'n Save is that its operating profit-to-sales ratio of 10.1% is approximately double Pay 'n Save's.

The Schuck's acquisition has another beneficial fall-out. Ernst Home Centers and Pay 'n Save drug stores have automotive sections, which will benefit from Schuck's expertise. Schuck's will gain, too, because it will be able to draw on Pay 'n Save's real estate expertise as it expands. Moreover, the infusion of capital from its new parent will enable Schuck's to double the number of stores in the next three years.

The Northwestern acquisition, despite the uproar over a chain retailer owning a wholesaler, was a 10-strike for Pay 'n Save. In buying Northwestern for a nominal $3 to $4 million—plus a 25-year lease on Northwestern's 258,000-sq.-ft. distribution center—Pay 'n Save added $130 million in volume and got a turn-key distribution center overnight. Most important, Northwestern's state-of-the-art technology and talent would have taken Pay 'n Save many years and dollars to develop.

There are 51 Ernst Home Centers in Washington and Idaho, and there is not a strong hardware wholesaler in the Pacific Northwest so the newly acquired distribution center would fill a much-needed void as well as being a lucrative profit center.

Pay 'n Save's diversification reached another plateau with the opening of its first Price Savers Wholesale Club in Salt Lake in March 1984. The 100,000-sq.-ft. deep-discount, cash-and-carry membership wholesale warehouse caters to small businesses and select groups. Upcoming sites include two in the Seattle area in 1984, as well as Honolulu and Anchorage, Alaska, in 1985.

Although the first Price Savers is located in Skaggs' heartland, competition will be only marginal at best. Price Savers concentrates on hard and soft goods, major appliances, housewares, hardware, tools, sporting goods, tobacco, seasonal, baby needs, plants, stationery/office, books, domestics and food products. However, Price Savers does not have a pharmacy or sell OTC products, and carries only a small selection of vitamins.

Pay 'n Save is now rolling out chainwide with a checkout scanning system which combines both slot and hand-held wand devices in a single store.

Pay 'n Save is using wands for two reasons: the physical constraints of counter space in cosmetics, camera and pharmacy and customer convenience.

Eckerd expects '84 profits surge

CLEARWATER, Fla.—Eckerd Drug is anticipating a record year in fiscal 1984.

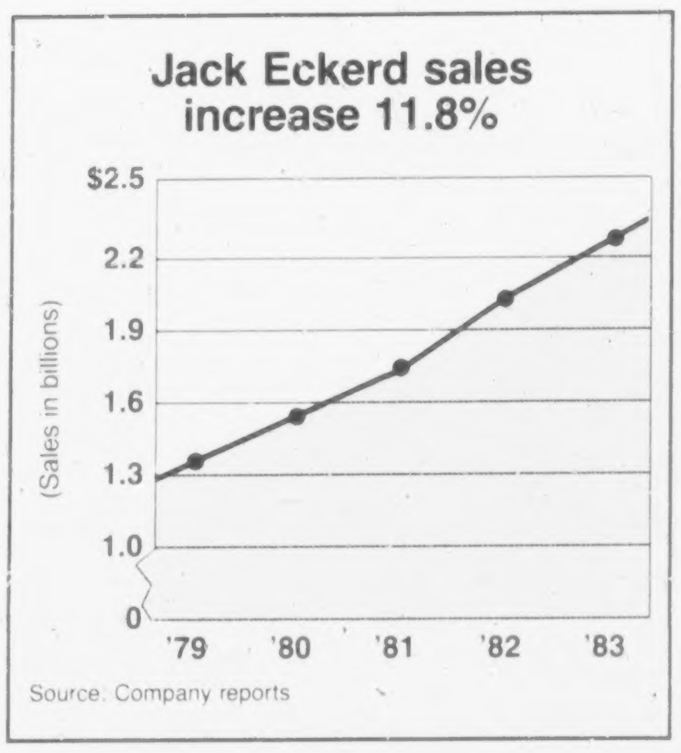
After two years of flat earnings, the chain is experiencing accelerated growth in both sales and profits. Some Wall Street analysts are even predicting that Eckerd's corporate year-end earnings may soar as high as 35% to $96 million.

For the first six months ended last January, sales for the 1,390-unit drug division were up 14% to $1.12 billion, while operating profits were up 25% to $96.3 million.

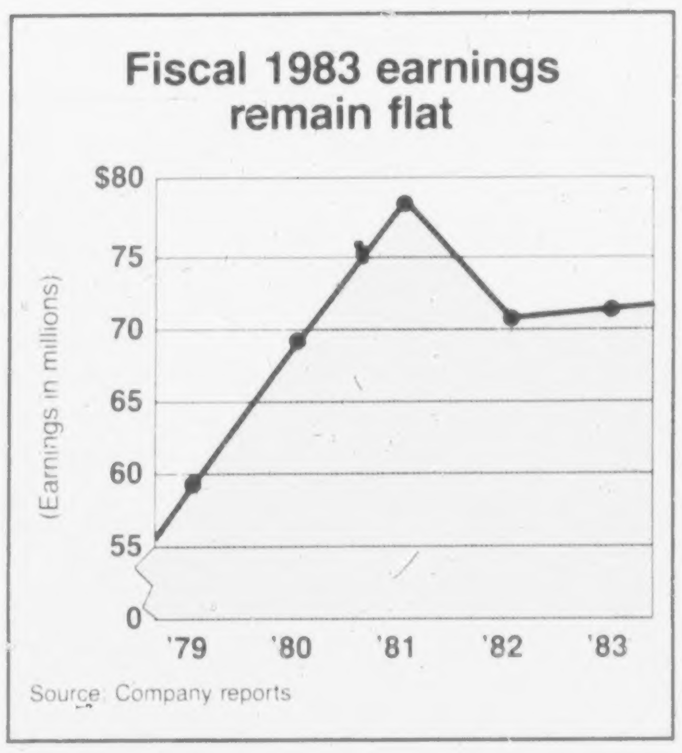
Sales for the Jack Eckerd Corp., which includes apparel and video stores as well as drug stores, were up 14% to $1.32 billion, while net earnings were up 22% to $49.6 million.

Chairman and ceo Stewart Turley says a key reason for the upturn is an "overall improvement in our operating companies' performance."

The company's chain of 184 Video-Concepts stores turned in a $1.2 million operating profit for the second quarter, compared to just $20,000 last year. The JBryons junior department stores improved its operating income by 7% for a total of $7.8 million.


Jack Eckerd sales increase 11.8%

Source: Company reports


Fiscal 1983 earnings remain flat

Source: Company reports

The real growth area for the company, however, were the drug stores. Sales and profit improvements reflected a number of marketing and operating modifications including the rollout of pharmacy terminals, the penetration of new markets and the addition of new stores in conjunction with the remodelings of older stores.

Last March, the division took another dramatic step to improve operations with the consolidation of its buying offices into one division instead of three.

In addition to streamlining the buying offices and removing levels of duplication, the new centralized system should also improve Eckerd's ability to keep its stores in stock in popular and hotly promoted items. It should also lower the acquisition costs of most products because it will enable Eckerd to buy larger quantities in bulk orders.

Because Eckerd intends to pass some of its cost savings along to consumers, the chain should also be able to sharpen its competitive pricing. One source estimates that as Eckerd's prices get sharper, the gross margin will remain the same but gross profit dollars will go up.

For the rest of 1984, the chain plans to continue the rollout of its pharmacy terminals begun in 1983. Management hopes to have 400 terminals on line by the end of fiscal 1984 this July and perhaps another 200 in place by the end of the calendar year.

Eckerd also hopes to have 100 electronic point-of-sale registers in place, feeding back merchandising reports and movement data, by the end of December.

Eckerd is also continuing to expand into such new markets as nursing homes.

The company is also experimenting with HMO's in several major markets, and is continuing to open optical centers and convalescent aids stores in select markets.

There are currently about 160 Optical Centers in operation and three convalescent aids stores.

Computers aid Pay Less NW profits

WILSONVILLE, Ore.—If Pay Less NW, operating in the heart of depression country during 1981 and 1982, could confound the experts by increasing new earnings 16.3% and 16.4%, respectively, then what could they do in an upbeat economy?

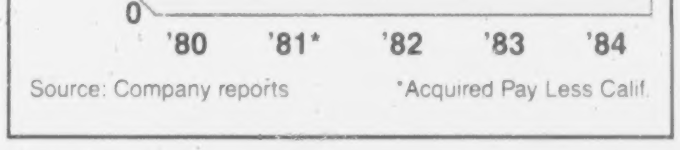
Much, much better, as evidenced in fiscal 1983 (ended Jan. 31, 1984), when net earnings increased 27.6% to $24.7 million. Yet the Pacific Northwest chain wrung 1983's record profits from a sales increase of 8.7%. Sales increases for 1981 and 1982 were even lower: 1% in 1981 and 3.5% in 1982.

There are many reasons for this anomaly, but the linchpin is advanced technology throughout the chain's operations. Simply put, the electronic network has reduced operational expenses and improved inventory turnover.

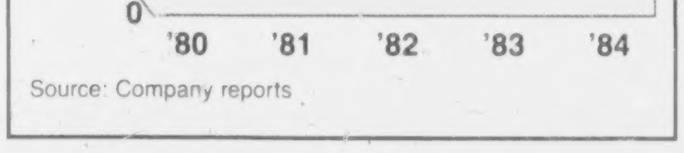
Pay Less recognized the computer's potential as a profit partner in the 70's, and has expanded the application with sophisticated systems.

POS is the latest in the Pay Less electronic armory. The electronic POS device is for automatic teller machine bank debit cards, and it attaches to Pay Less' electronic cash registers. POS will be installed in 30 stores by the end of the second quarter of 1984, with all 152 stores completed by the end of 1985.

The system differs from the one used by Eckerd. Eckerd's captures item-by-item product movement through a six-digit identification code. Pay Less feels that I.D.-numbered items at the checkout do not lend themselves to a high-volume discount drug operation (Pay Less' per-store average is among the highest in the nation).


Pay Less sales up 8.7% (Fiscal year ended Jan. 31)

Source: Company reports *Acquired Pay Less Calif.


Pay Less profits leap (Fiscal year ended Jan. 31)

Source: Company reports

In the near future, Pay Less will be able to add front-end scanning because each register is a computer terminal.

An automated bookkeeping system—consisting of a terminal and printer—augments the present online pharmacy system which has been in operation in Pay Less stores for several years.

The new bookkeeping system maximizes existing telephone network costs because it operates both pharmacy and bookkeeper terminals with a single controller unit.

Distribution center planned

This year Pay Less will begin construction of a distribution center in Stockton, south of Sacramento, to service Pay Less' central and northern California stores. The size will be 730,000 sq. ft., or less, depending on land use of the site. This facility, scheduled to open in 1985, will have the capacity to supply 150 stores—the same as the Wilsonville facility. At present, Pay Less operates 72 stores in central and northern California.

The new Stockton distribution center will take the pressure off the 708,000-sq.-ft. (including mezzanine) central distribution center in Wilsonville. It will also enable Pay Less to terminate the leasing of 400,000 sq. ft. of outside warehouse space now being utilized in the Portland, Ore., area.

Wilsonville reached its capacity earlier than Pay Less had expected because the chain has added new categories to the distribution network (cigarettes, toys, sunglasses and candles).

Space was further constricted in 1983 when Pay Less decided to centrally warehouse 1,600 sku's of prescription drugs.

Looking toward expansion

As for expansion, central and northern California will be the principal targets. When the new Stockton facility is in place, Pay Less will have distribution facilities capable of supplying more than twice the number of stores now being serviced. Pay Less now operates drug stores in Washington, Idaho, California and one store in Nevada. The Nevada store (in Elko, near the Idaho border) is part of the Idaho division which now consists of stores in Boise, Twin Falls and Pocatello.

Pay Less also has a new smaller prototype, the first of which opened in the California division last year. The 29,000-sq.-ft. prototype—first introduced in Oregon—has been down-sized from 34,000 sq. ft., in an effort to lower occupancy costs at a time of rapidly rising land and construction costs.

To compensate for the decrease in footage, Pay Less has raised the gondola height on the wall and on one side of the store (camera, sporting goods, hardware, paint and electrical supplies) to 72 in.

On the other side of the store (pharmacy and H&BA) gondolas are now 60 in. to 66 in. high. The reason for the difference in height in pharmacy and H&BA is to give shoppers a clear view of mainline departments.

Rite Aid drug, specialty units grow

SHIREMANSTOWN, Pa.—Specialty retailing was high on the list of priorities last year for Rite Aid as the drug retailer expanded its nearly two-year-old toy chain, started a chain of variety stores and most recently, purchased an auto parts chain.

But while the Shiremanstown, Pa.-based chain diversified at a rapid rate last year, the drug store division continued its fast-paced growth. Rite Aid opened 73 stores in 1983. In addition, the chain will roll out a new sophisticated computerized scanning system later this year that will virtually eliminate individually priced items in each of its stores.

Collectively, the drug chain and other diversified operations combined to boost fiscal 1984 operating income nearly 25% to $62.1 million from $49.9 million the previous year. Earnings per share from operations for the 53-week fiscal year rose 16.6% to $1.47 from $1.19 in fiscal 1983.

In addition, Rite Aid reported a $12 million extraordinary gain from the partial sale of Super Rite Foods Inc., its grocery wholesaling operation through a public offering at the close of last year. Taking into account the gain from the Super Rite offering, net earnings for fiscal 1984 were $74.3 million, up 35% from $54.9 million in fiscal 1983, which included operating income from Super Rite.

Earnings per share, inclusive of the gain from Super Rite and a 2-for-1 stock split in January, increased 34% to $1.76 from $1.31.

Corporate sales during fiscal 1984 were up 16.6% to $1.2 billion from $1.04 billion in fiscal 1983.

Given the chain's ability to generate cash, Rite Aid has been able to finance expansion and diversification out of its own pockets at a time when interest rates still remain uncomfortably high for many businesses.

Rights to Heaven

During the spring of 1983, Rite Aid purchased the national rights, with the exception of southern California and Las Vegas, to the name and concept behind a unique contemporary variety store called Heaven.

Since bringing Heaven to the East Coast, Rite Aid has successfully tested the 3,000-sq.-ft. stores in a number of shopping mall locations. There are currently seven Heaven units operating with plans for as many as 15 over the next year. The Heaven concept has been particularly appealing to Rite Aid because, on average, the stores have taken only three to four months to break even.

On a much larger scale, Circus World, Rite Aid's first venture into specialty retailing, has grown from 128 stores at the time of the acquisition to 175 stores. The retail toy store division, bolstered by a strong economy, had a particularly good Christmas selling season last year.

Circus World's performance during the recent Christmas season helped Rite Aid post a 32% increase in earnings and an 18% increase in sales in the fourth quarter.

For the fourth quarter of fiscal 1984, Rite Aid generated earnings of $24.9 million or 59¢ per share on sales of $367.7 million, compared to operating income of $18.9 million or 45¢ per share on sales of $308.9 million during the same period the previous year.

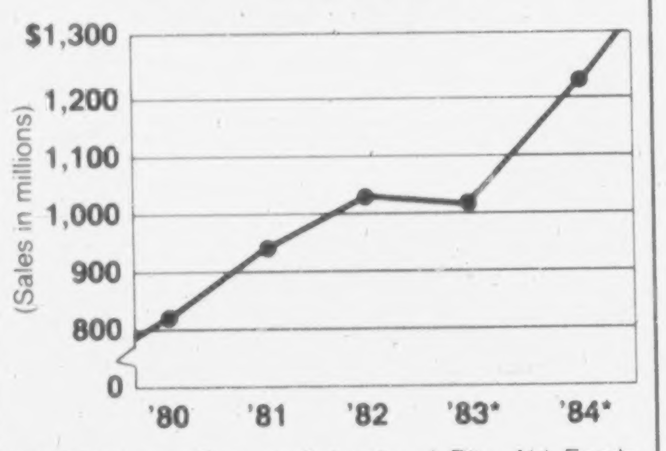
Just as Rite Aid's fourth quarter was ending, the company announced that it had acquired a new specialty retail chain. The drug retailer's purchase of ADAP, an Avon, Mass.-based discount auto parts concern, offers Rite Aid new opportunities in the lucrative auto aftermarket business.

Observers believe that Rite Aid will expand the 32-unit ADAP chain well beyond its current operating area that includes the states of Massachusetts, Rhode Island and New Hampshire.

In addition to their obvious profit potential, the other retail businesses have enabled Rite Aid to negotiate more favorable leasing agreements with shopping mall and strip center owners. In a Charleston, W. Va., shopping mall, Rite Aid has clustered a Circus World, a drug store and a Heaven unit.

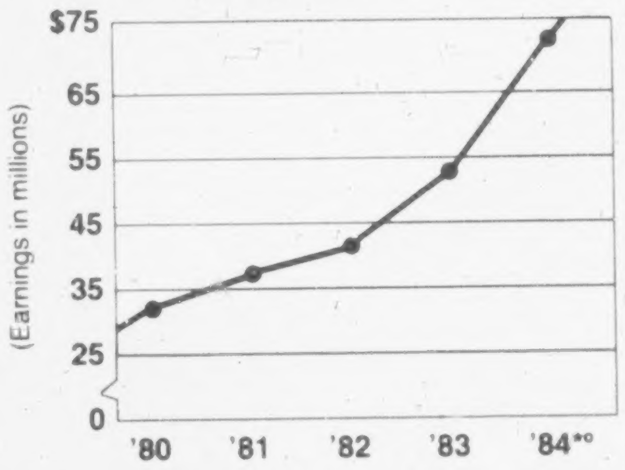
Rite Aid is planning to open a minimum of 90 new drug stores in 1984. While the majority of the chain's new stores are still being opened in strip shopping centers, Rite Aid is increasing the number of freestanding units it operates. By the end of fiscal 1985, the company expects to have as many as 170 freestanding stores. The chain also is planning to remodel 107 stores during the current fiscal year.

Rite Aid sales increase 16.6%



*Restated to reflect partial sale of Rite Aid Foods holding.
°Fiscal year ended March 3, 1984.
Source: Company reports

Rite Aid earnings jump 35%



*Restated to reflect partial sale of Super Rite Foods holding
°Fiscal year ended March 3
Source: Company reports

Thrift sales growth tops Penney's

PITTSBURGH—The 1984 fiscal year tally for J. C. Penney Co. Inc., reveals that Thrift Drug Co., had the highest percentage of sales increase of all the corporation's domestic operations.

The figures, based on a fiscal year ended Jan. 28, 1984, showed that sales (excluding catalog) at Thrift, which also operates as Treasury Drug Centers, rose 9.7% to $532 million from $485 million in 1983. Same-store sales increased 7.3%.

In comparison, the sales increase at all J. C. Penney stores and catalog was 6.5% to $11 billion from $10.4 billion. The increase in same stores was 6%.

When catalog is added to Thrift sales, the increase for fiscal 1984 was 9.4% to $589 million from $538 million.

Average annual sales per square foot and sales per store each increased during 1983 by about 8%. The average annual sales per square foot was $157 compared to $145 in 1982. The average sales per store last year were $1.6 million compared to $1.5 million.

Contributing to the increase in sales was the opening of 10 stores, bringing the total number of Thrift drug stores to 365 at the end of the fiscal year. Of these stores 358 have pharmacy departments.

Less action

The number of stores opened, acquired and closed was considerably less than in 1982. During that year, 37 stores were opened or acquired and 27 were closed or sold off. Much of the difference is explained by Thrift's unusual action in 1982 of selling 20 units in Tennessee to Eckerd Drug and in turn buying 20 stores in Pennsylvania from Eckerd.

While only 10 stores were opened last year, Thrift is predicting a greater percentage of growth in 1984 with some 20 new stores.

Thrift plans to continue adding durable medical equipment departments in 1984, a move that began last year. In 1982, Thrift had only 12 such departments. However, there were a total of 255 last year and 268 are predicted by the end of 1984. Convalescent aids departments are also expected to increase to 370 this year, compared to 357 in 1983.

Thrift continued to add computers in its pharmacies throughout 1983, and currently has 345 installed. This compares to 325 computers in 1982. Thrift is planning to install computers in all of its new stores.

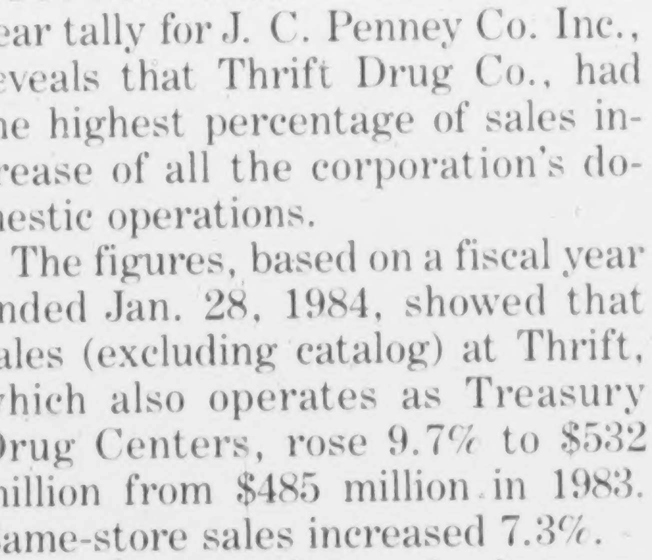
Rxtra computer

The computer system, called "Rxtra," aids pharmacists by allowing them to fill scripts faster and more efficiently and by providing drug compatibility checks. It is also considered a consumer service because it can provide customers with itemized records of prescriptions.

Promotion of Rxtra, which began in 1982, got into full swing last year with an advertising campaign to promote the chain's service theme. The campaign helped Thrift increase the number of prescriptions dispensed by about 5% to 17.3 million from 16.4 million. Of these, about 53% were new prescriptions. Prescription sales account for 34% of Thrift's total sales volume in 1983.

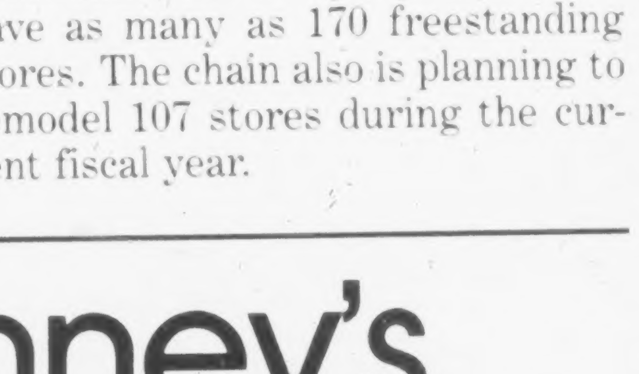
Also during 1983, Thrift received approval from the Drug Enforcement Administration to repackage its own prescription drugs. This means Thrift will be able to buy in large bulk volumes and repackage centrally to serve all its stores.

Average Thrift store takes in $1.6 million



Source: Company reports

Thrift store count increases by 11



Source: Company reports

Longs upscales cosmetics, profits

WALNUT CREEK, Calif.—A system to track weekly gross profits, soon to be programmed into store computers, helped Longs Drug Stores turn sliding profits into gains during 1983.

It was also a year in which scheduling innovations by employees doubled Christmas cosmetics sales in the chain's Mountain View store and a period when cosmetics departments got a facelift.

Longs reported earnings of $36.4 million in fiscal 1984, which ended on Jan. 31, 17% higher than the $30.9 million garnered in fiscal 1983. Earnings per common share rose to $3.43 from $2.92.

These figures are particularly encouraging after a rather flat fiscal 1983 when earnings rose only slightly, to $30.9 million from $30.3.

Sales in fiscal 1984 went up by 8% to $1.2 billion from $1.1 billion. The percentage increase was not, however, as great as the 12% growth achieved in the previous year.

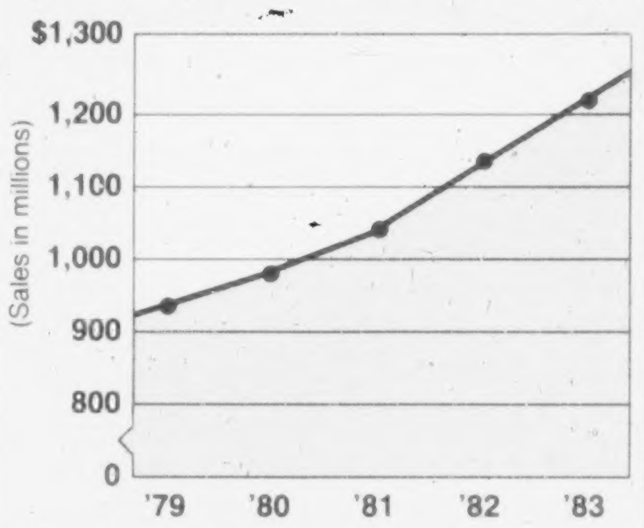
The problem of sliding profits came to a head in 1982 when Longs began experiencing the effect of expansion and start-up costs during the recessionary years. In addition, price conscious shoppers did more cherrypicking than expected, causing the ratio of ad sales to total store sales to rise, thereby lowering gross margins.

When net income dropped by 6% in the third quarter of fiscal 1983, the chain took action by creating a system that calls on managers to project sales volumes and margins quarter by quarter. Managers monitor their progress on a weekly basis as a means of reaching or exceeding their objectives.

Plans are to computerize this tracking system and provide terminals in store managers' offices so that they can efficiently keep an eye on sales and margins. The terminals will be installed at locations where pharmacy computers already exist.

While Longs hopes to have computers in all of its stores, 55 pharmacy computers are currently on line. Installations, which began in 1982, include hardware by Hewlett-Packard and software by Longs. The pharmacy computers have several unique features including the ability to provide drug interaction information and page citations to reference books. They can also calculate gross profit on acquisition costs without requiring retail calculations to be made on the same basis.

Sales hit $1.21 billion (Fiscal year ended January)



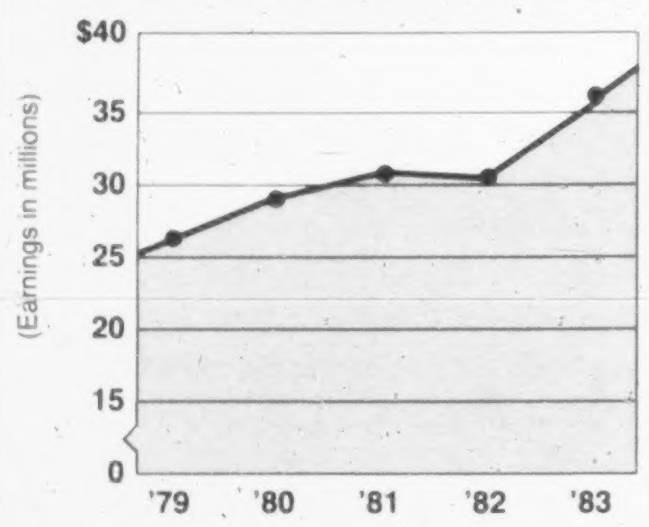
Source: Company reports

Christmas cosmetics sales in 1983 were brushed up by five cosmeticians at Long's Mountain View store in the San Francisco peninsula south of the city. The women were bothered by the number of times other tasks took them away from the selling floor. As a result of haphazard coverage, there were often periods when no cosmetician was on hand to help customers.

The cosmeticians arranged their schedules so that at least one of them could advise shoppers at all times. Besides helping customers, the only things they would do on the floor were minor adjustments of facings and other light housekeeping jobs. The immediate result was a doubling in sales.

A chainwide change in cosmetics was a conversion to a "department-store" look in most stores. The net effect was a long, clean department with an uncluttered walk-through area that is fully stocked.

Earnings rise 18% (Fiscal year ended January)



Source: Company reports

Compared to previous years, expansion of Longs stores in fiscal 1984 seemed to have slowed down slightly. The chain opened seven stores and closed two—for a total of 178. In comparison 12 stores were opened and one closed in fiscal 1983 and 14 were opened and one closed in fiscal 1982. However, expansion is expected to pick up this year with some 13 more stores planned by January 1985.

New stores last year included Longs' 16th outlet in Hawaii. The 25,000-sq.-ft. store is located in central Oahu.

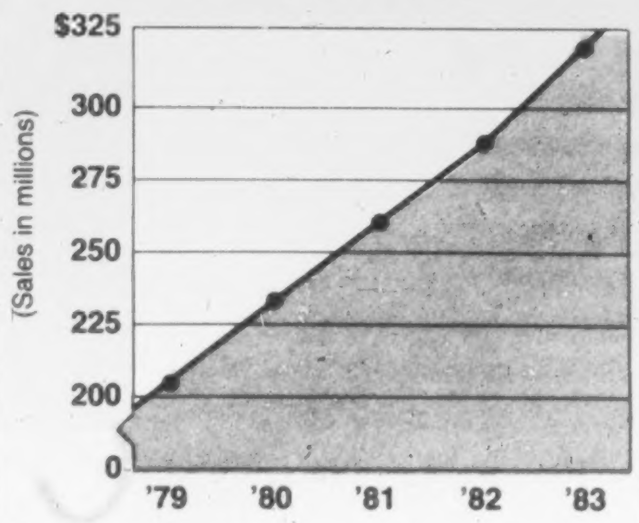
Hook increases stores, earnings

INDIANAPOLIS—Hook Drug opened 20 new stores in 1983—the most ambitious level of store growth for the 288-store chain since 1969.

That included expansion in Kentucky, a new market for Indiana's largest chain. The company now operates drug stores in four states: Illinois, Kentucky, Indiana and Ohio. Hook plans to open 20 more drug stores during fiscal 1984.

Last year was also a big one for the company's home health care division. In 1983, in fact, home health care was made a new division within the corporate structure. Two new Hook's Convalescent Aids and Home Health Care Centers were opened, bringing the total number to 10. According to the chain's annual report, plans have been set for long-term expansion of this rapidly growing area of corporate operations. As many as 40 stores are projected by year-end 1985, all within a 400-mile radius of Indianapolis. Five more convalescent aids centers are on tap for 1984.

Hook's sales show steady growth



Source: Company reports

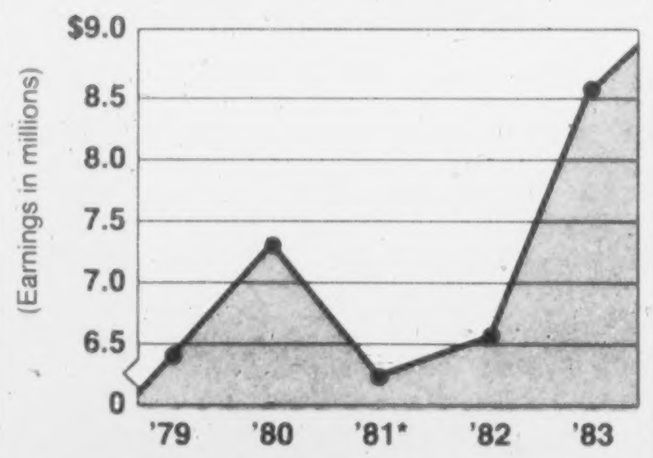
To keep up with expansion, Hook completed its $5.9 million warehouse modernization and expansion project a full year ahead of schedule and at a savings of approximately "$500,000 from previously estimated project costs," according to J. Douglas Reeves, chairman and president.

These factors, plus increased prices resulting from inflation, helped push Hook's sales for fiscal 1983, ended Dec. 31, 12.4% above 1982's $320 million. Net income rose 32% to nearly $8.7 million. It was the second year in a row that Hook's earnings increased, following a tough year in 1981 when earnings sank 20%. Hook has placed an emphasis on controlling expenses and its expense ratio improved from 28 in 1982 to 27.8 in 1983.

Winter's toll

According to Reeves, Hook's only area of disappointment was a decline in sales gains experienced during the last 15 days of December. "Coincidental with this softening of our sales were periods of severe winter weather that confronted our customers during a period of the year that includes our best sales days," Reeves explained.

Hook's net income jumps 32% in fiscal 1983



*In 1981, Hook's adopted the LIFO method of determining inventory.

Source: Company reports

He continued, "While the net effect was a fourth quarter of 1983 that ended with earnings that were 3¢ per share below those of a very strong fourth quarter of 1982, we have no reason to suspect any significant weakening of retail sales in our marketplace."

Hook continues to rank within the top 10 drug chains in several key areas. For example, according to *Drug Store News* calculations, the chain is 10th in sales and 11th in net income. Its return-on-investment of 20.3% makes it the seventh best in the industry. And Hook registered the highest gross margins at 34.4%—that's even better than the 33.9% registered last year.

Rx is important

Pharmacy, which contributes 34% of total sales, is one of the most important categories at Hook. More than 9.8 million prescriptions were filled last year by the chain's "Pharmacists in Green." That record number generated prescription drug sales that topped the $100 million mark for the first time.

Hook is expanding its pharmacy computer system dubbed MIC. Currently, 81 Hook pharmacies employ the system with plans to have 150 units with Rx terminals within 36 months.

Other developments at Hook include:

- Increased level of cooperation from vendors in developing special product promotions.
- Tightened interdepartmental coordination which resulted in more rapid completion of store remodeling.
- The enhancement of store and warehouse security efforts to further cut the loss of assets through shrinkage, robbery and burglary.
- The implementation of in-house recommendations for improving various operational status reports.
- Introducing personal computers as an aid to corporate management.

Fay's posts record results in 1983

LIVERPOOL, N.Y.—In the wake of the most successful year in a 25-year history, Fay's chairman Henry A. Panasci Jr. predicted that the chain would continue to "outpace the economy and the retailing industry" in 1984.

On all fronts, the Liverpool, N.Y.-based chain is moving ahead aggressively not only to solidify its position but also to break new ground.

Fay's plans to open as many as 17 new stores in the current fiscal year as well as to maintain the sizzling pace that produced such outstanding results last year.

For the year ended Jan. 31, Fay's earnings shot up 48% to $8.1 million as sales increased 16% to $312 million. Fourth-quarter gains were just as impressive. Earnings soared 51% to $3.8 million, while sales were up 17% to $92 million.

There was strong evidence that Panasci's predictions were right on target, as sales in February increased by more than 30%.

Panasci attributed the stellar performance primarily to increased market penetration. But he also mentioned "effective expense controls, imaginative merchandising programs and strong prescription sales."

Fay's is one of a number of chains that have fully computerized their pharmacy departments, and Panasci said that the AccuFays system was instrumental in the 28% jump in prescription sales during the year. He also noted that "customer traffic developed by our prescription departments have generated additional sales volume in other departments throughout our stores."

As for market penetration, Fay's opened 10 new stores during the year, six of which were launched in the fourth quarter. At year end, Fay's was operating 102 stores in New York, Massachusetts and Pennsylvania. On March 11, the chain opened a new store in Niagara Falls, its 16th outlet in an area targeted for growth—the Buffalo-Niagara Frontier area.

Market strategy

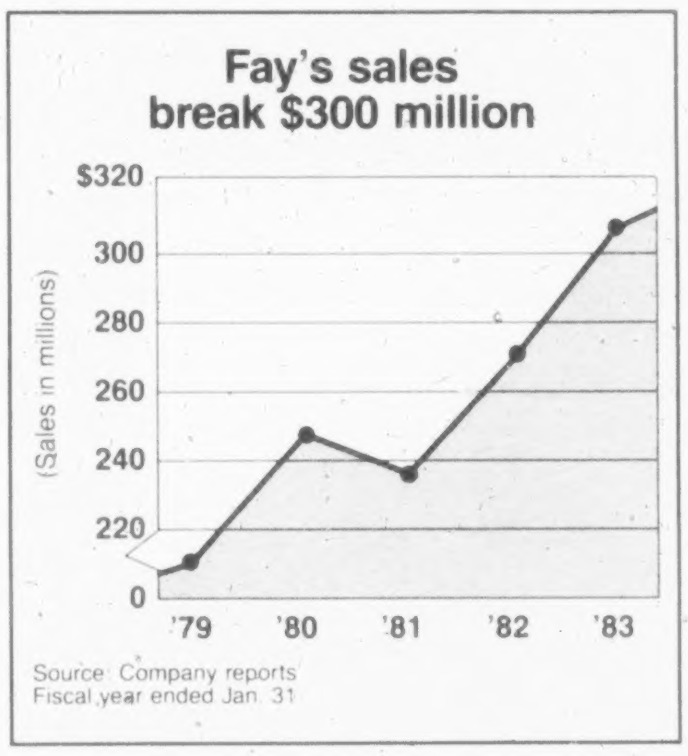
Fay's strategy has been to concentrate on markets that lie within a 250-mile radius of its headquarters and distribution center in Liverpool. To handle projected growth in those markets, Fay's recently completed an expansion and modernization of its distribution center. With greater storage capacity and new automated material handling systems, the expanded facility will be able to service nearly 170 stores with 75% of their merchandising needs.

Fay's is also poised for a plunge into retailing areas outside of its traditional drug store business, including possible forays into auto supply retailing, deep-discounting and specialty office supply outlets.

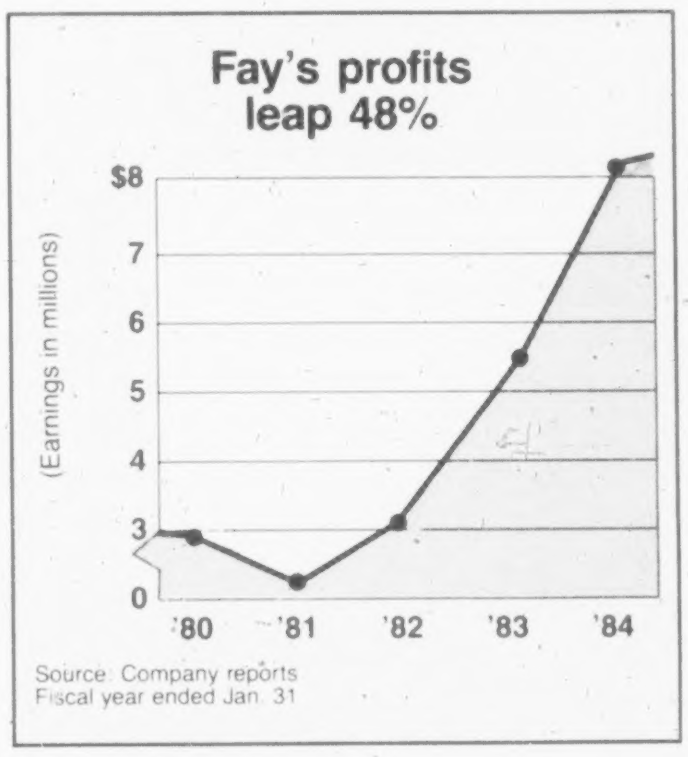
Said Panasci late last year: "We're planning to test the waters in other specialty retailing areas that offer the opportunity to easily transfer our skills to other profit centers."

To handle the potential new ventures, Fay's brought Larry Padgett on board. Padgett, former president of Carls Drug, was named president of the new specialty retailing division. Panasci said that hard lines retailing was the likely initial target for the new division.

During the year, Fay's also had a stock offering that raised $19 million that will be used for its expansion and remodeling plans.



Source: Company reports
Fiscal year ended Jan. 31



Source: Company reports
Fiscal year ended Jan. 31

Dart renews drug store emphasis

LANDOVER, Md.—Dart Drug put the bulk of its efforts last year into the rapid expansion of its Crown Books and Trak Auto ventures.

But there were strong indications that the diversified Landover, Md.-based chain was renewing its commitment to the chain of super drug stores that had been allowed to languish in recent years.

For one thing, after three years of relatively flat store growth, Dart opened four more stores in the past year, bringing the count to 73 in the Washington, D.C., and mid-Atlantic areas.

But perhaps more important was the hiring of Al Towle as president of the drug store division. With the major growth emphasis on auto supply outlets and book stores, Dart's upper management team had been stretched thin, and the drug stores suffered in the operational area.

Many of the stores were poorly merchandised, basic housekeeping looked as if it had been put on hold and there were severe out-of-stock problems.

The result was that the chain of discount super drug stores and drug/home center combos had lost share to Peoples, which was on an aggressive expansion track.

With Towle at the wheel, Dart should be able to resolve some of those problems. Towle has the distinction of having served in upper management positions for two of the three other leading drug store chains in the Washington, D.C., market. Before coming to Dart, he was president of Gray Drug Fair, and earlier in his career he was senior vp of marketing at Peoples. So Washington and its environs is like home.

Strong optimism

Towle's strength as an executive is his ability to attract top managers in the operations and merchandising areas. He also firmly believes that emphasis on the basic core departments is the key to success.

Towle came into the job in March with an optimistic outlook, declaring that Dart's low-price image would be emphasized as Dart sought to build its market share. "It's a real strong image," he said, "and we'll keep blasting away at it."

Despite the problems, Dart managed to produce some strong operating results in the past year. Although year-end (Jan. 31) figures were not available at presstime, nine-month performance numbers showed that the chain was maintaining its upward momentum.

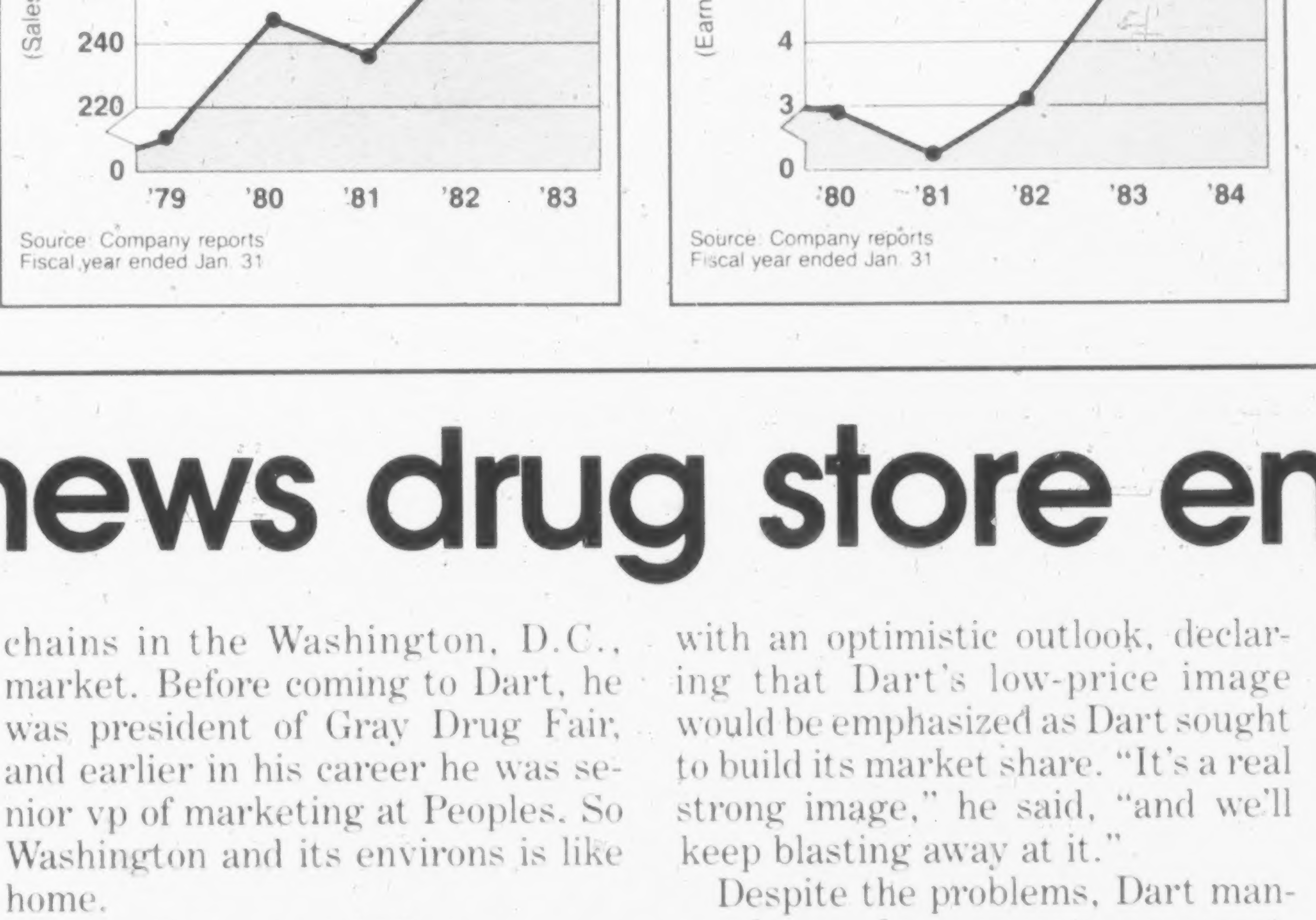
In the third quarter ended Oct. 31, net income rose 187% to $3.1 million on sales of $68.7 million. And for the first nine months, Dart posted earnings of $9.6 million, compared to $10.9 million in the previous period. But the early results included an extraordinary gain of $8.3 million from the sale of a 50% interest in Crown Books East to Thrifty as well as 50% of Trak Auto West operating systems to the same chain. Sales for the nine months were $206.9 million.

Trak spins off

During the year, Dart spun off as a separate company the eastern segment of its fast-growing Trak Auto division. The spin off resulted in a sizable jump in Dart's stock price, from the mid-30s at the time of the release of the prospectus in April to more than 100 by mid-May. By April 11 of this year, the price had settled back to $64, still twice as high as it had been a year earlier.

Dart, with Thrifty this time, also spun off the Crown Books division. With an initial public offering of 2.5 million shares, the two companies hoped to raise $55 million, $20 million of which was slated for the opening of 150 new discount book stores, $5 million to repay advances from Dart and Thrifty, and the rest for working capital.

Crown, which had grown from 11 stores in 1979 to 130 at the time of the offering last year, was yielding earnings of $2.9 million (compared to $193,000 four years earlier).



Dart and Thrifty spun off their highly successful Crown Books operation as a separate public company, with each retaining 34% ownership.

Genovese on record-profits streak

MELVILLE, N.Y.—Having strung together 12 consecutive record quarters of earnings and sales, Genovese Drug Stores is approaching its 60th anniversary well positioned for the future.

Earnings growth outpaced sales growth by a 2-to-1 margin during fiscal year 1984 as a result of continued cost containment measures and several successful new store openings.

Net earnings for fiscal year 1984 rose nearly 44% to \$3.9 million from \$2.6 million the previous year. Earnings on a per share basis, adjusted for a 20% stock dividend distributed a year ago and a 2-for-1 stock split in October, rose 43% from 67¢ to 96¢ in fiscal year 1984.

Fiscal year 1984 sales advanced from \$158.7 million to \$193.8 million. Sales for the fourth quarter increased nearly 25% to \$54.6 million from \$43.8 million.

Genovese's net-to-sales ratio for fiscal 1984, ended Feb. 3, was 2%, up from 1.6% in 1983.

Net earnings during the fourth quarter rose 42% from \$1.2 million to \$1.7 million. Earnings per share, also adjusted to reflect the previous year's increase in shares, rose 43% from 30¢ to 43¢.

The Long Island, N.Y.-based chain continued to take advantage of economies of scale in advertising and distribution with its steady expansion into suburban communities surrounding New York City. During fiscal 1984, Genovese opened 6 stores, bringing its total store count to 72. The chain has identified the New York City suburbs of Brooklyn and Queens as well as parts of Long Island for future increased market penetration.

In 1985 Genovese is planning to open as many as eight new stores, including one that is set to open on Staten Island, the first Genovese drug store in that New York City borough.

Genovese officials have in fact credited the new stores for contributing to the outstanding year-end results. The five new stores opened in 1982 have performed better than had been hoped and the six new units brought on line last year have gone into the black.

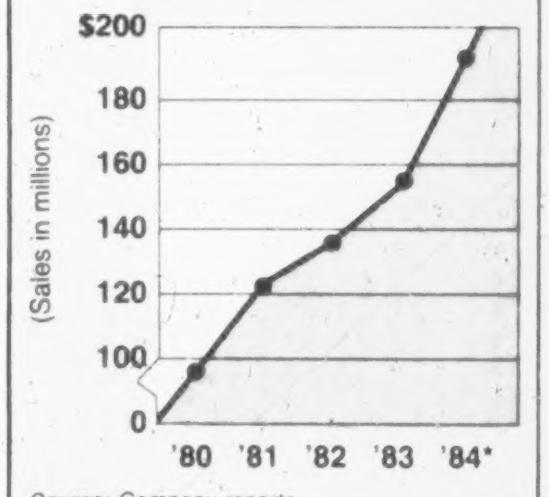
The chain also was able to generate significant increases out of its existing stores. Same-store sales increases were in the 10% range, allowing for 5% inflation and 5% real sales growth.

Genovese continues to emphasize the basic drug store "core" categories, which account for approximately 60% of overall sales. Pharmacy represents 23% of chain sales. Other leading Genovese categories include health and beauty aids (23%), general sundry (17%), cosmetics (8%), photo (5%), front end (includes personal care appliances and consumer electronics—4%), cards (3%), paper products (5%); cigarettes (4%) and candy (4%).

In addition to having posted record sales and earnings, fiscal 1984 provided the 60-year-old chain with another milestone. In December the chain acted on its two-year plan to open a freestanding home health care store. Genovese unveiled the test store in Long Island City, N.Y., the same community where Joseph Genovese opened the first Genovese drug store in 1924.

The 6,000-sq.-ft. Genovese Home Health Care Center, which contains a variety of durable medical equipment, exercise equipment, orthotic products and home health care-related soft goods, was patterned after the successful home health care units operated by Peoples and Hook Drug.

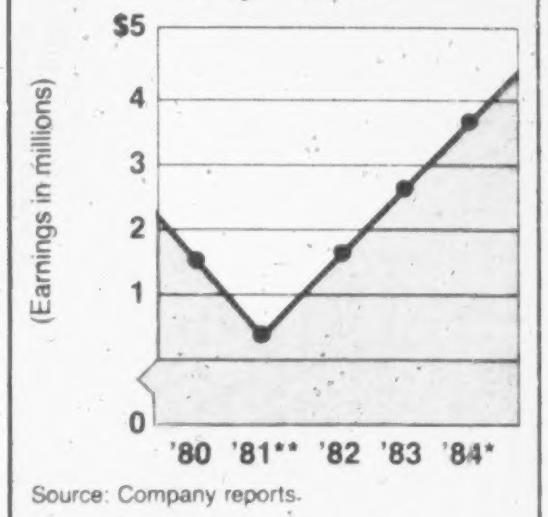
Sales approach \$200 million mark



Source: Company reports

*Fiscal year ended Feb. 3

Genovese earnings leap 46%



Source: Company reports.

*Fiscal year ended Feb. 3
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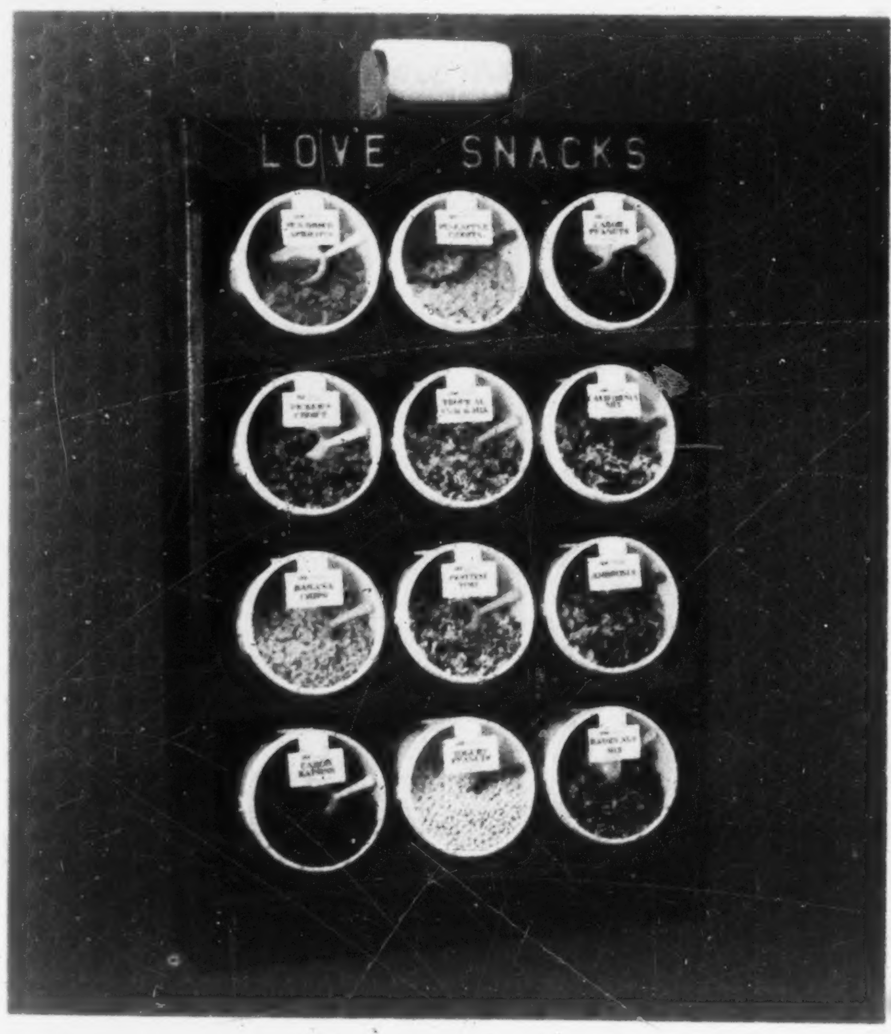

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Begley earnings climb

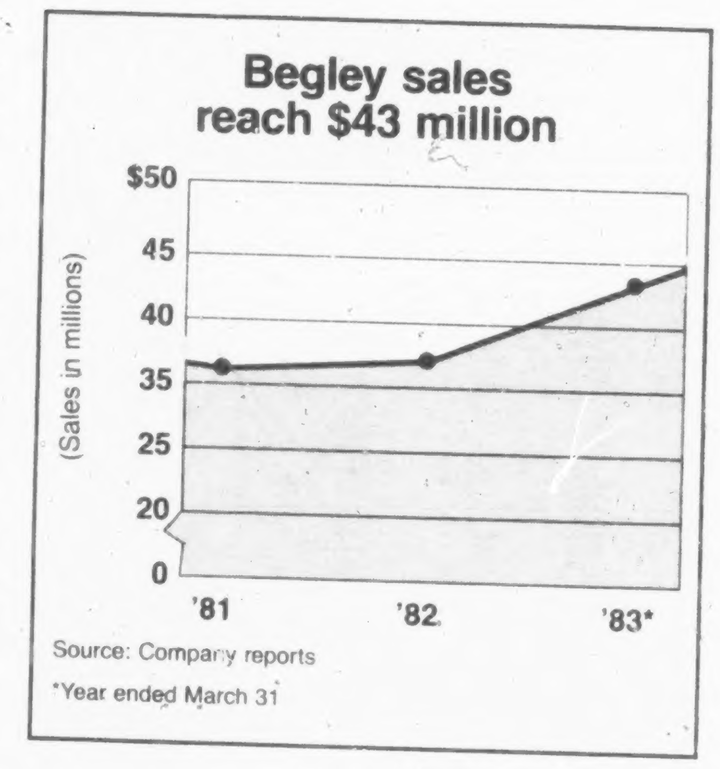
RICHMOND, Ky.—For the first three quarters of fiscal 1984, Begley Drug continued to show strong gains in both earnings and sales.

Subtracting a one-time $140,000 gain from the sale of a Richmond shopping center in the third quarter, Begley's third quarter earnings for fiscal 1983 totaled $580 million. For the three quarters ended March 31 of this year, third quarter earnings were up 35% to $725,637.

Corporate sales for the three quarters increased 10% to $46.5 million, up from $42.2 million. Begley currently operates 45 drug stores, all in Kentucky; four home health care stores, also in Kentucky; one freestanding jewelry store in Cynthiana, Ky.; 110 dry cleaners and two Radio Shack franchises.

In fiscal 1983, the company earned $806,592 on total corporate revenues of $56.8 million. Drug stores accounted for approximately 81% of corporate sales in 1983, about $46 million, a 22% increase over the prior year.

A typical Begley Drug store is about 7,200 sq. ft., averages about $1 million a year in sales and generates sales per square foot of approximately $141.


Begley sales reach $43 million

Source: Company reports
*Year ended March 31

In 1983, the chain began adding convenience food departments, complete with freezers, to select drug stores. The chain added three such departments last year and plans four more for this year. The typical convenience food department in Begley averages between 700 and 800 sq. ft.

Begley is also currently adding a sizable number of upscale cosmetics items to its drug store mix. The chain may not feature an entire line from any one particular manufacturer, but it does cherrypick the best-selling brands.

Begley is also continuing its rollout of pharmacy computers begun in 1983. Three stores were equipped with Rx terminals in 1983 and Begley plans to add terminals to another three stores in 1984.

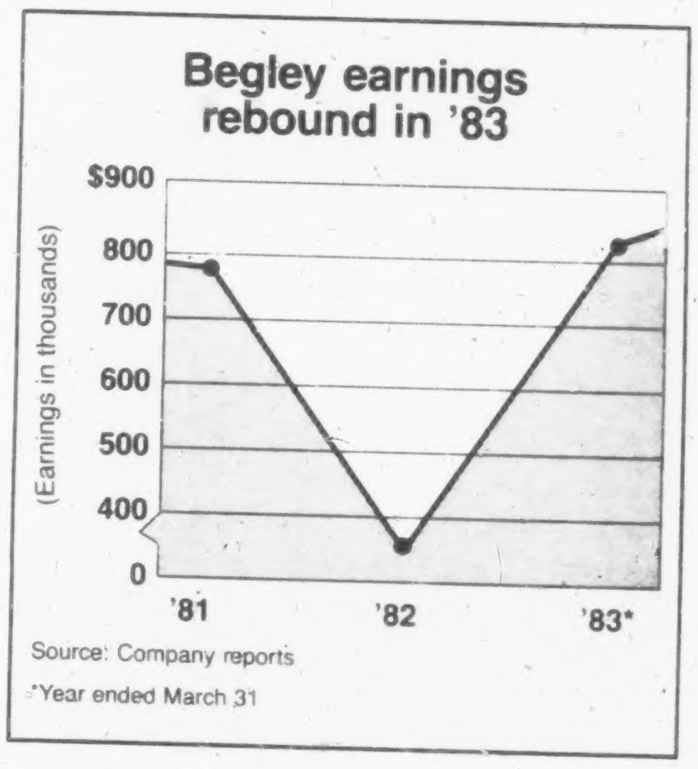
Prescriptions make up 33.5% of total drug store sales in the chain. In 1983, the number of scripts increased 4% to 1.5 million, up from 1.4 million the prior year. Some 52% of these prescriptions were new.

In its nondrug divisions, Begley is also continuing to expand. The company, which opened its first four home health care centers in 1983, plans to add another five this year.

Begley is also studying the sales results of a 2,100-sq.-ft. jewelry store—located in the same Cynthiana, Ky., shopping center—as a traditional Begley drug store. Begley has alredy closed two of three jewelry departments that were located in existing drug stores. These departments had been leased by a separate Begley division.

Begley's second Radio Shack franchise was opened in a Manchester, Ky., 10,000-sq.-ft. drug store. The 1,700-sq.-ft. department currently takes up about 17% of the store's total space.

BEGLEY'S
Convalescent Aids
Sales & Rentals
OBO


Begley earnings rebound in '83

Source: Company reports
*Year ended March 31

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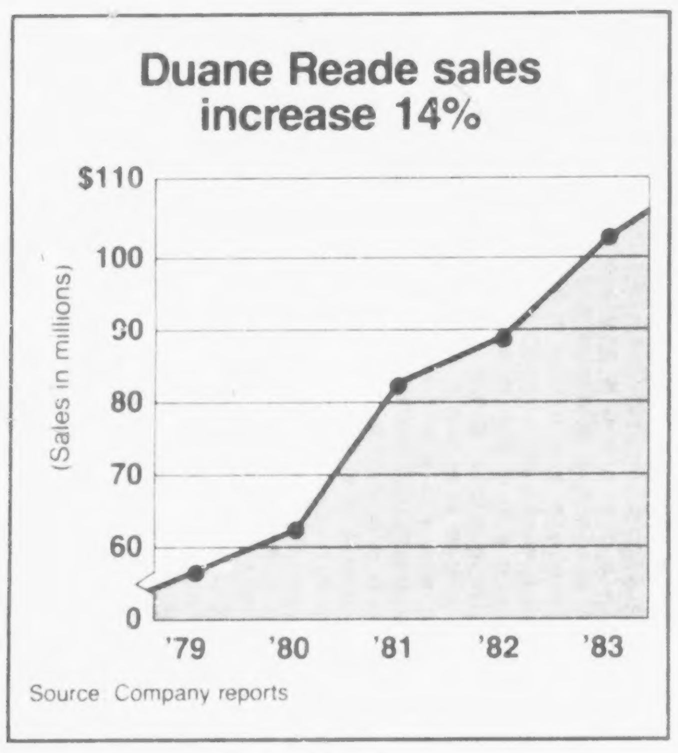
Duane Reade doesn't go public

LONG ISLAND CITY, N.Y.—Duane Reade, one of the most successful privately operated drug chains in the country, has been on an emotional rollercoaster ride for the first half of this year.

Early in January, president Eli Cohen revealed that the chain planned to go public by March of 1984. A prospectus was filed with the S.E.C. Bear, Stearns & Co. was hired to represent the underwriters. Everything seemed set to transpire as a matter of course.

But between January when the announcement was made and March when the meeting was held to determine opening price for Duane Reade stock, the market suffered a series of reversals.


Duane Reade sales increase 14%

Source: Company reports

Stock prices for many leading American companies, including the hotter drug chains, declined. The earnings multiples dropped.

Convinced that they had a superior company and a superior financial track record, the Cohen family did not want to settle for an opening price any lower than $16. Wall Street would not go higher than $14.

At $16, the stock would have carried a 20 times earnings multiple. At $14, the multiple was only about 14.5 times earnings.

So Duane Reade, which was set to go public by early spring, is still a private company, and Eli Cohen says the conversion is "indefinitely postponed."

"We're not withdrawing our offering," he says, "but we're waiting to see if the market changes. We don't need to go public if we feel the price isn't right. We're profitable and we can fulfill our growth plans with internally generated funds. The primary reason to go public was for estate purposes, and it is not a move we have to make."

Eventually the S.E.C. can be expected to step into the picture and either ask Duane Reade to withdraw its offering or act on it, but Cohen estimates it can be as long as "several months" before the S.E.C. comes in, and he reasons that in that time the market might change.

In the meantime, Duane Reade, which now has 22 stores, is going ahead with expansion for three or four new stores in the metro New York market.

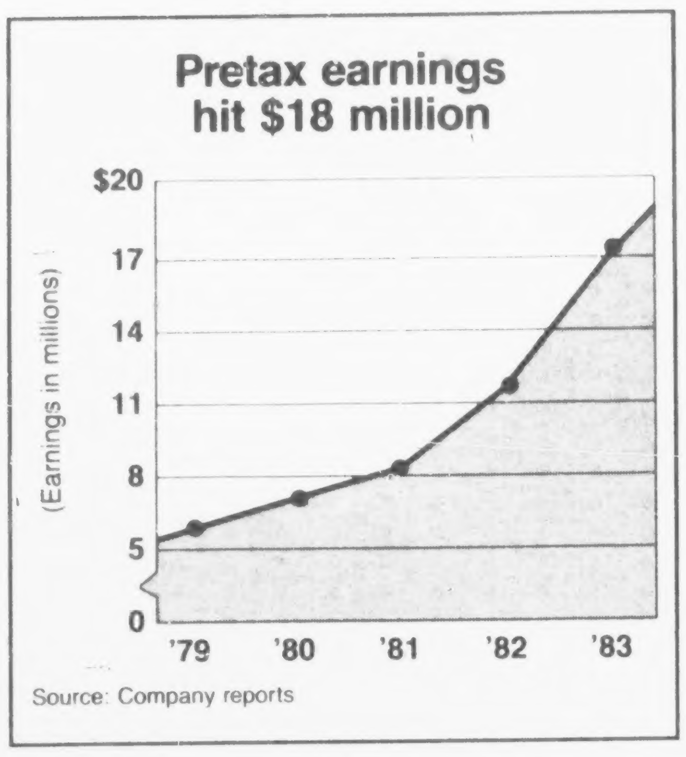
The chain is in various stages of negotiations for leases. The typical Duane Reade store averages between 4,000 and 5,000 sq. ft. and generates approximately $5 million a year in sales. For the 1983 fiscal year ended last Oct. 31, sales totaled $102 million, an increase of 13%.

With pretax profits for fiscal 1983 totaling $17.6 million on sales of $102 million, Duane Reade has one of the highest pretax profit margins in the industry. Its 17.2% pretax margin is more than double the industry's average.

Its return on equity is also extremely high—48%, meaning that for every investor dollar in 1983, the company netted 48¢.

Wall Street analysts say the only thing that prevented the chain from going public was the disagreement over multiples. The Cohens felt their numbers justified at least a 20 times multiple. But Wall Street felt that in today's market the multiple was out of line. Analysts pointed out that in late March, chains like Walgreens and Eckerd were only commanding a 12 point multiple.

"The market simply isn't favorable right now to initial public offerings," says one analyst. "Duane Reade should still come out, but if they can afford to, they might be better off to wait and see."


Pretax earnings hit $18 million

Source: Company reports

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1983 POPAI/Du Pont survey tracks drug store shopper

Drug Store News Special: Here are the preliminary results of the POPAI/Du Pont 1983 merchandising study, featuring interviews with 12,131 consumers and the analysis of 27,782 drug store purchases.

SAN DIEGO—The average shopper in a drug store buys 2.27 items and spends $7.26. But according to preliminary findings from the just concluded POPAI/Du Pont merchandising study, only 43% of the items purchased are specifically planned when the typical shopper walks into a store.

Nearly 6 out of every 10 purchases made within a drug store are made in response to merchandising aids the shopper encounters once he or she is in the store.

In examining the 27,282 purchases made by the 12,131 consumers who participated in the study, POPAI found that 11,622 or 42.6% of all purchases were specifically planned by brand meaning that shoppers intended to buy these items when they entered the store. Another 3,655 or 13.6% were planned by general category, meaning shoppers knew they were going to buy skin care items or soda but they hadn't yet decided which brand. Some 1,255 purchases were substituted when a specific brand proved to be unavailable.

A whopping 10,749 purchases, or 39.4% of all purchases, were not planned at all. They were impulse sales made in response to merchandising stimuli encountered within the store.

The study provides impressive evidence that the in-store decision-making process is the strongest variable influencing consumer purchases.

Planned purchases

Purchase determinants	% of purchases made
Specifically planned purchase	42.6%
Generally planned	13.4
Substitute purchase	4.6
Unplanned/impulse purchase	39.4

Source: POPAI/Du Pont 1983 Merchandising Study

POPAI/Du Pont 1983 merchandising study

External advertising like circulars, store ads or manufacturer coupons may bring shoppers into drug stores but more than half the items that shoppers buy while in the stores will be prompted by in-store merchandising aids.

In 32 out of the 40 major drug store categories, POPAI discovered that in-store decisions influence at least half of all recorded purchases.

The highest impulse sales come from the most consumable categories, which are traditionally among the drug store retailer's key departments: jewelry and leather goods; cards and novelties; seasonal items; candy and gum, and stationery. At least 7 out of every 10 purchases within these categories come from impulse sales.

Continued on page 145

Percentage of purchases resulting from in-store decisions

Category	% of purchases	Category	% of purchases
Jewelry/leather goods	83.12%	Shaving needs	57.67%
Cards/novelties	82.43	Apparel	57.55
Seasonal items	81.60	Hair care	56.77
Candy/gum	75.44	Barbecue/patio	56.45
Stationery/school & office	73.40	Electric/batteries	55.02
Toys/sporting goods	69.12	Magazines/books	53.93
Housewares	68.90	Other OTC's	53.79
Garden	68.87	Skin/sun care	53.69
Cosmetics	65.65	Foot care	53.62
Fragrances	65.22	Dental care	52.50
Pet foods & supplies	64.89	Cough/cold	52.31
Foods	63.74	Optical supplies	50.21
First aid	63.14	Beverages	48.39
Hardware/paint	62.52	Diet aids	47.52
Vitamins/food supplements	61.96	Baby needs	47.48
Household cleaners	61.46	Digestive aids	39.48
Paper products	60.94	Photo	39.30
Automotive	58.80	Analgesics	38.54
Feminine hygiene/contraceptives	57.85	Tobacco	31.16
Personal hygiene	57.71	Prescription	2.50

Source: POPAI/Du Pont 1983 Merchandising Study

Key advertising influences on typical drug store shoppers

Advertising aid	Shoppers who used the aid
Store ads in general	17%
This store's ad	13
Store's circular	11
Store's window displays	2
Planned to shop this particular store	78

Source: POPAI/Du Pont 1983 Merchandising Study

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POPAI researchers focused their efforts at point of sale

The POPAI/Du Pont $300,000-plus merchandising study may be the most comprehensive ever conducted in the drug store industry.

To develop their findings, POPAI researchers interviewed over 12,131 consumers intercepted as they shopped in a total of 258 drug stores.

With the permission of the participating chains and independent drug store owners, the researchers approached shoppers as they entered the store and queried them on the items they intended to purchase.

If the shopper was cooperative, the researchers asked such things as why he or she chose to shop this particular store, what the shopper liked and disliked about the store, what the shopper intended to purchase, whether he or she used a shopping list and/or coupons, etc.

After the shoppers had completed their shopping trip and were checking out, the researchers asked if they could itemize the purchases to see whether they had indeed made all their planned purchases.

POPAI's researchers itemized the purchases by brand, size, category, price and quantity. If a purchased item turned out to be a substitute for a planned purchase, that was noted. They also noted whether shoppers, in making the purchases, were influenced by such merchandising aids as in-store signs, store displays, store coupons, newspaper ads, etc.

The study was conducted in two parts: the summer and late fall of 1983. The stores involved in the study were located in 40 major markets which covered the five main geographic regions of the country.

Some 63% of all the stores in the study turned out to be located in an open mart. Just 14% of all the stores in the study were in shopping centers anchored by a traffic-drawing retail entity like a supermarket. Just 6% of the stores were in isolated areas while 7% respectively were either in central business locations or other business locations.

Some 46% of all the stores in the study had one to three independent drug stores located within a half a mile of their operation while 42% had one to three chain drug stores within half a mile. Twenty per cent of the stores had one to three supermarkets nearby.

The average store in the study was 13,860 sq. ft. The average purchase per shopper was 2.27 items.

Among the chains which participated in the study were: Walgreens; Eckerd; SupeRx; CVS; Rite Aid; Thrifty; Pathmark; Genovese and Sentry.

The findings were based on a total of 27,282 purchases made in 39 major categories. Computers ultimately analyzed the findings by major category, by 300 subcategories and by individual brands.

**POPAI/Du Pont
1983
merchandising
study**

The stores used in the POPAI merchandising study were located in 40 major United States markets.

Big spender: young, affluent shopper

Who are the "big spenders" in a typical drug store?

Well, according to preliminary results from POPAI/Du Pont 12,000-plus consumer merchandising study, the big spenders in drug stores tend to be between the ages of 25 and 35, living in a household of just two people, making $35,000 a year or more *and* using credit cards.

According to the preliminary results of the POPAI study released last month in San Diego, the average number of purchases per credit card shopper was 3.96. The average purchase for shoppers not using credit cards was 2.89.

Nearly 8 out of every 10 drug store shoppers are female. Typical shoppers, the findings show, visit a drug store about six times a month. They stay for an average 14 minutes. They typically buy 2.27 items and spend an average $7.26.

The hottest selling days are mid to late week: Wednesday, Thursday and Friday.

The peak selling period in a drug store is between 2 p.m. and 6 p.m. The next busiest time frame is from 10 a.m. to 2 p.m.

Some 23% of the shoppers in the POPAI survey were between 25 and 34.9. The survey found 29.3% came from two person households and 32%

(Continued on page 146)

'83 survey tracks drug store shoppers

(Continued from page 144)

Even highly advertised products like deodorants have a high-impulse rate even though the millions that manufacturers spend on advertising specific brands within this category would make one assume that planned purchase decisions would be much higher.

However, according to POPAI's findings, only 49.6% of all deodorant purchases were specifically planned before shoppers walked into the store. Thirty-five per cent were absolutely unplanned and another 15% were either substitute sales or purchases made by shoppers who simply knew they wanted to buy some type of deodorant. Decisions as to which type, which brand, were made while shoppers studied the category selections within the stores.

An old drug store stable, cotton balls, had an extremely high in-store decision rate of 75%. The findings suggest that shoppers tend to be looking for bargains and if they see one in the store, they will buy a specific product even though they hadn't planned to buy that product when they first entered the store.

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POPAI/Du Pont 1983 merchandising study

Big spenders: young, affluent shopper

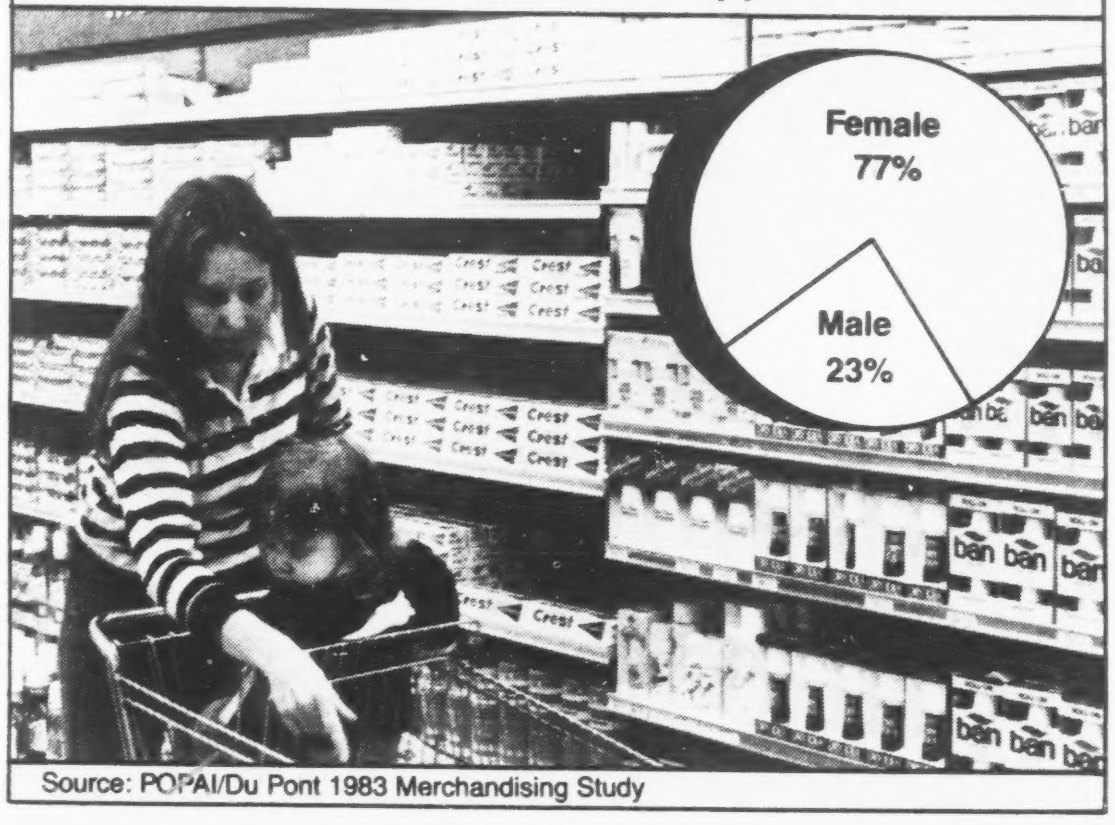
Continued from page 145

made $35,000 a year or more.

Shoppers who stayed in the stores 10 minutes or less tended to buy the most items. POPAI found that if shoppers were in the store 10 minutes or less, they averaged 0.59 purchases. If they were in the store 10-15 minutes, they averaged 0.53 purchases. But if they were in the store 15-20 minutes, the purchase rate fell off to 0.38 items, while if they stayed 30 minutes or less, it went down to 0.11 purchases.

Consumers who could not find the item they planned to purchase or who found it was out of stock frequently tended not to make any purchase. According to POPAI's research, some 2,972 purchases or 11% of planned purchases were not made because shoppers could not find the items once they got in the store.

8 out of every 10 drug store shoppers are female



Source: POPAI/Du Pont 1983 Merchandising Study

How the average shopper uses a typical drug store

Avg. time spent shopping a drug store	13.6 minutes per store
Avg. number of trips per month	6
Avg. purchase per trip	$7.26
Avg. monthly purchase	$43.56

Source: POPAI/Du Pont 1983 Merchandising Study

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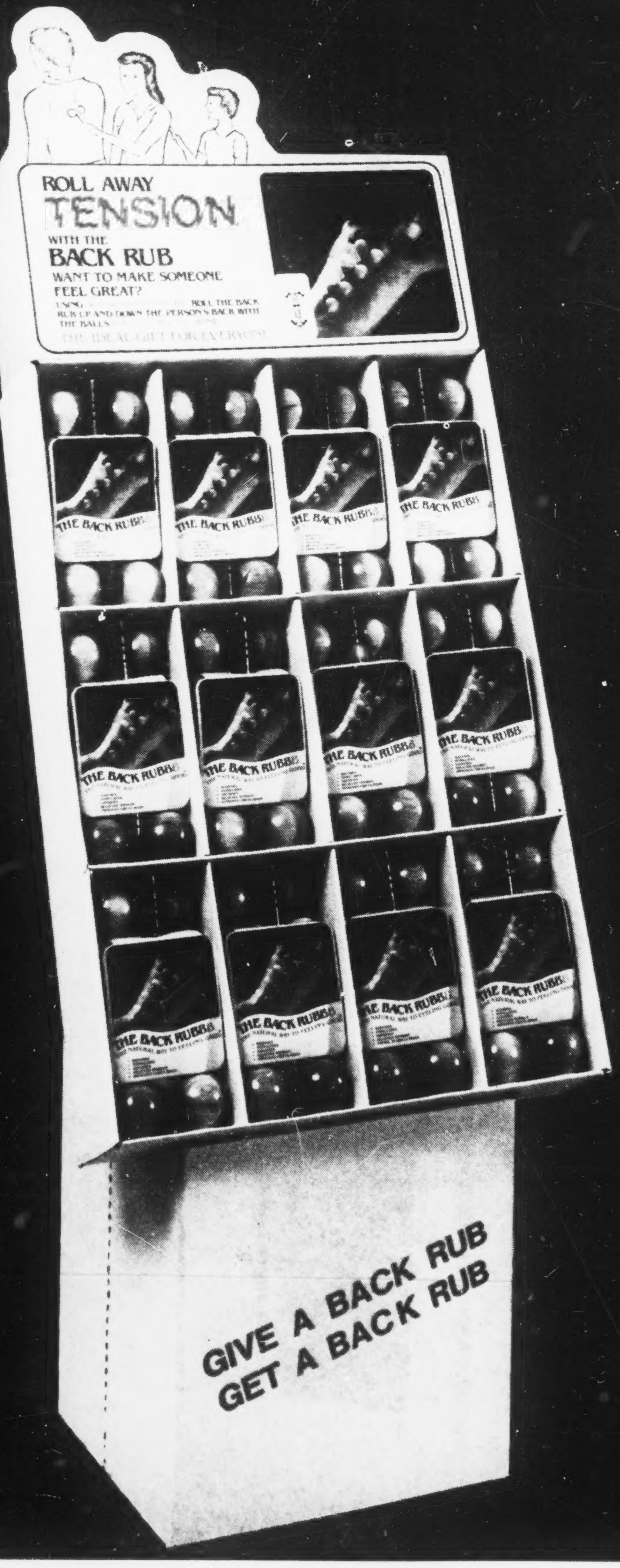

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Shopping time vs. purchases

Time in store	Incidence of purchase
10 min. or less	0.59
10-15 min.	0.53
15-20 min.	0.38
20-25 min.	0.28
25-30 min.	0.22
30 min. plus	0.11

Source: POPAI/Du Pont 1983 Merchandising Study

Dispute value of cosmetics sales clerk

Does a cosmetics sales clerk help a drug store increase sales of cosmetics?

Not very much. And probably not enough to offset the cost of the sales clerk, according to the POPAI/Du Pont merchandising study just concluded.

Preliminary findings from the survey indicate that only 12% of all drug store shoppers report that cosmetics sales clerks really aid.

However, even though only 12% of shoppers say a sales clerk helped them make a purchase, some 50% of the drug stores in the POPAI study employed a cosmetics salesman, while 25% employed the better-trained and even more expensive cosmetologist.

Pharmacists, the study also found, were only credited with helping shoppers make 5% of their purchase.

Only 12% of shoppers said clerks aided sales.

New merchandising categories emerge

More than half of all 258 drug stores in the POPAI/Du Pont merchandising study were selling beer or wine and 39% were selling liquor.

The findings are particularly impressive because they include controlled states in which drug stores are not able to sell alcoholic beverages.

In our exclusive report on POPAI's full findings, which will be published in the Dec. 12 issue of *Drug Store News*, we will be able to catalog all the major and emerging merchandising categories within drug stores.

The initial findings, released last month at POPAI's annual convention in San Diego, however, show some interesting merchandising trends.

Some popular drug store products

Category	% of drug stores featuring the category
Greeting cards/wrapping paper	99
Magazines	97
Refrigerated beverages	71
Ice cream freezers	54
Newspapers	52
Beer/wine	54
Liquor	39
Personal computers	33
Video games	21
Frozen foods	18

Source: POPAI/Du Pont 1983 Merchandising Study

As expected, POPAI's in-store researchers found that some 99% of the 258 stores in the survey featured a greeting cards and wrapping paper section. Ninety-seven per cent carried magazines. However, only 52% carried newspapers.

In new and nontraditional areas of drug store retailing, POPAI found that a stunning 33% of all stores sold personal computers while a surprising 18% sold frozen foods.

Ice cream freezers, as you would expect, were in about 54% of survey stores but only 21% carried video games.

There was further confirmation of the current trend toward providing convenience to today's shopper: 71% of all the drug stores in the study featured cold beverage cases while 94% of all the stores accepted credit cards.

An additional 21% had charge accounts available for their frequent shoppers.

POPAI/Du Pont 1983 merchandising study

Just 15% of the stores in the study provided utility payment services, but those that did enjoyed a higher incidence of purchases per shopper.

In the pharmacy department, the average store in the study filled a total of 851 scripts per week while employing an average number of 2.7 pharmacy personnel.

Newspapers still the most popular drug store ad vehicle

Merchandising aids	% of stores using aid
Newspapers	67
Store circulars	65
Radio/TV ads	37

Source: POPAI/Du Pont 1983 Merchandising Study

Western shoppers buy big

Drug stores in the Pacific and western regions of the country tend to be larger than drug stores in any other part of the country. Consequently the average purchases per shopper in these stores tend to be larger, too.

According to the initial findings of the POPAI/Du Pont 1983 merchandising survey, shoppers in the Pacific regions outbuy the rest of the country by a significant margin: 2.75 items per shopping trip compared to an average of 2.27 for the nation.

The Southeast shopper has the next highest purchase rate, 2.43 with the West Coast 2.42.

Stores in the Midwest and the Northeast had the lowest purchase rates, 2.33 and 2.24, respectively.

Purchases per trip by region

Region	Avg. purchase per shopper
Pacific	2.75
Southeast	2.43
West	2.42
Midwest	2.33
Northeast	2.24
Average	2.27

Source: POPAI/Du Pont 1983 Merchandising Study

More results set for Dec. DrSN issue

Highlights from *Drug Store News*'s Dec. 12 exclusive on the full findings of the 1983 POPAI/Du Pont merchandising survey:

- A ranking of the 100 most productive categories within today's drug stores: spotlight on categories with the highest proven incidences of purchase.
- An analysis of which categories are likely to have a high incidence of planned purchases vs. store decision-making/impulse purchases. Retailers armed with this information can manipulate in-store merchandising aids to maximize impulse sales.
- An analysis of the variables that impact the strongest on planned purchases. Can a retailer expect more movement from a manufacturer's coupon, a television ad, newspapers or store circulars?
- An analysis of the in-store merchandising aids that best turn products. Do in-store displays work as well as POS and what happens when a product is given endcap placement?
- A look at who the key buyers are in any given merchandising category.
- An analysis of cross purchasing behavior. How likely is someone who buys a diet aid to buy a cologne or a food supplement. Valuable information that can lead to better tie-in sales.

All this and more coming in the Dec. 12th consumer study of *Drug Store News*.

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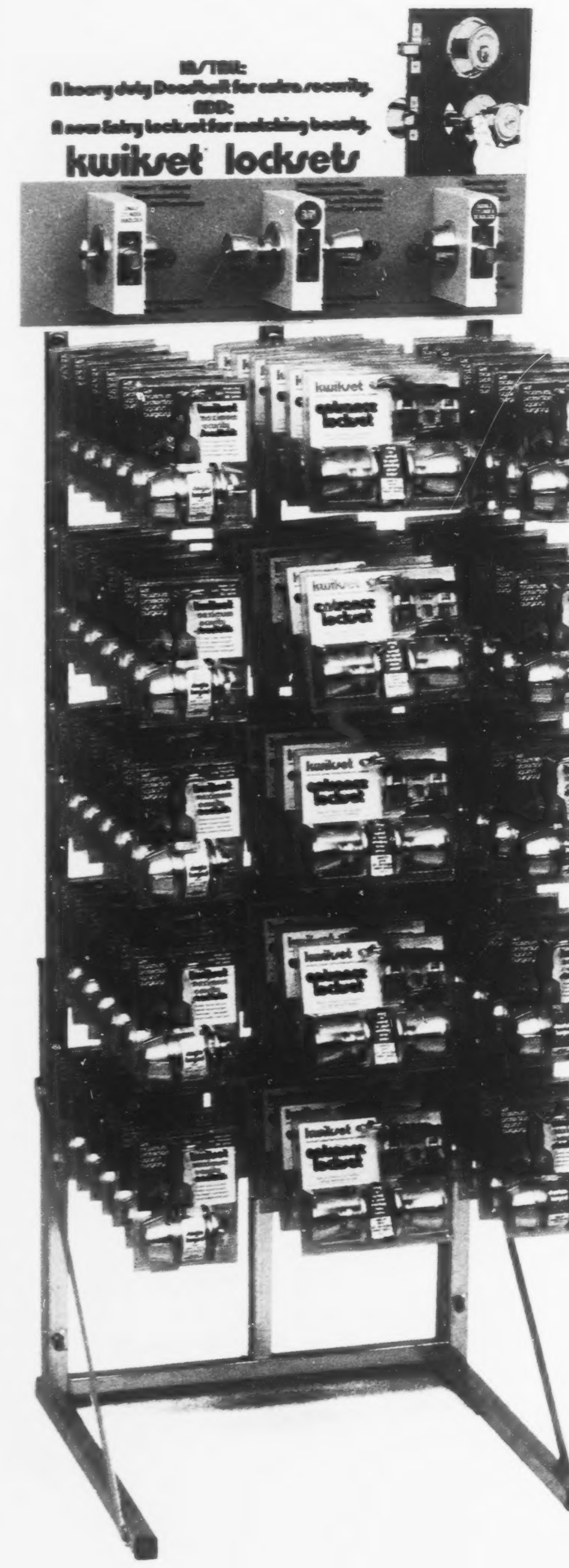

System-Six freestanding merchandiser, No. 1230 with No. 202 header.

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Of course, to increase sales even further, it helps to place the products in Kwikset's attention-getting merchandiser. It will help you get the maximum amount of high-margin sales from a minimum amount of space.

What's more, Kwikset's clear plastic pilfer-resistant packaging allows customers to see the product for themselves. You won't have to spend a lot of time explaining the product's advantages. So it couldn't be easier for you to cash in on important impulse sales from your security-minded customers.

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PHARMACY
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MERCHANDISER
Special report on ethnic products—p. 61

DRUG STORE NEWS®

Vol. 6 No. 11 **Serving the Retail Drug Store Industry for 55 years** Published by Lebhar-Friedman Inc. May 14, 1984

2 Dart execs offer $160M for drug div.

By Bruce Buckley

LANDOVER, Md.—Dart Drug has tentatively agreed to accept a $160 million offer for its 73-store retail drug division from a group headed by two Dart executives—Al Towle, drug store division president, and Stephen J. Hansbrough, senior vp of distribution and data processing.

The deal hinges on the ability of Smith Barney, Harris Upham & Co. to arrange financing for the leveraged buyout and is subject to the execution of a definitive agreement

The group is expected to take the new company private.

The size of the offer surprised industry observers, since it is approximately half of what Imasco Ltd. agreed to pay for Peoples Drug, which generated three times as much revenue as Dart last year and is clearly the leader in Dart's primary market: Washington, D.C.

As Eliot Benson, vp and research director of Ferris & Co., a Washington-based investment firm, put it, "The sellers are getting a helluva good price."

Benson pointed out, however, that it was difficult to say how sweet the deal actually is for Dart, since the true earning power of the drug division is blurred by the profit contribution of Trak Auto and Crown Books.

Moreover, he said, the drug division, Trak and Crown all share certain facilities, including distribution, so it is hard to pinpoint how expenses are allocated among the three operations.

In the fiscal year ended Jan. 31, Dart reported a 68% increase in net earnings to $15.3 million, while consolidated sales rose 8% to $282.9 million.

But those results include Dart's share of the earnings from the discount books and auto parts companies. In the year ended Jan. 31, Crown's profit was $4.9 million on sales of $91.4 million, while Trak netted $4.6 million on $58.6 million in sales.

Dart owns 67% of Trak and has a 34% interest in Crown. Both operations were spun off as separate public companies last year.

Based on Dart's average 1.74 million shares outstanding, the

Continued on page 86

While there is little merchandising continuity in an Odd Lot store, consumers are attracted by the chain's sharply reduced prices.

Revco to take over Odd Lot

By Jim Ricchiuti

TWINSBURG, Ohio—Following the success of its two-year-old joint venture with Odd Lot Trading Inc., Revco D. S. has agreed to purchase the New York-based wholesaler and retailer of closeout merchandise for 4.4 million shares of the drug retailer's common stock.

The acquisition, which is subject to a complete audit examination of Odd Lot's most recent fiscal year, is valued at approximately $110 million. The takeover will bring the 58 Odd Lot stores in New York, New Jersey, Connecticut and Pennsylvania, and the 28 stores jointly operated by Odd Lot and Revco in Michigan and Florida all under the direction of Revco.

In addition, Revco will gain complete control of Tangible Industries Inc., the wholesaling subsidiary of Odd Lot that has been a major supplier of closeout merchandise to the Twinsburg, Ohio-based drug chain.

Last year, Odd Lot posted sales of $127 million. Earnings were $11.3 million. Its Tangible Industries subsidiary accounted for $78 million or 61% of Odd Lot's total sales in 1983.

Odd Lot also operates two distribution facilities in New

Continued on page 85

See related stories on page 3

Pay 'n Save, Schuck's ex-execs forge deal

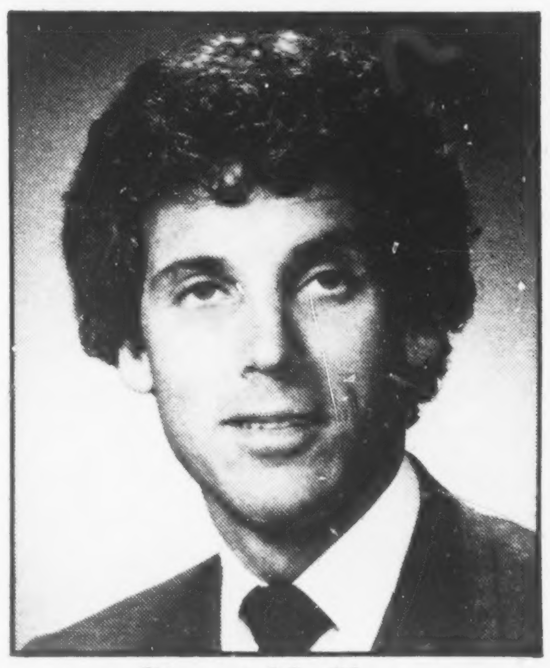
SEATTLE—Still trying to recover from an unanticipated negative stockholder reaction to its recent acquisition of the Schuck's Auto chain, Pay 'n Save has effected a management compromise that promises a new direction for the company.

The arrangement, which gives two board seats to two of the company's largest stockholders and makes one of them an executive vice president, postpones and possibly ends what some sources feared was the beginning of a possibly devastating proxy fight.

It also makes it likely that Pay 'n Save will gradually convert from a highly decentralized chain to one more strongly centralized and controlled.

The plan effects a reconciliation between two major stockholders—Samuel Stroum, 62, the retired chairman of Schuck's, and his 40-year-old son-in-law, Stuart M. Sloan, who was Schuck's president—and the company's management. Sloan, who originally

Continued on page 86



Stuart M. Sloan

Gray turnaround 'encouraging'

By Liz Parks

CLEVELAND—Gray Drug Fair, the 420-unit retail drug store division of Sherwin-Williams, has just ended a first quarter in which operating profits more than doubled on a sales increase of 10%.

Analysts who follow Sherwin-Williams say the quarter may represent a "turnaround for the division" and that it may end the year with net earnings in excess of $15 million. Analysts also believe that operating profit margins, which reached a low of 1% at the end of calendar 1983, may reach as high as 2.5% or 3% by the end of 1984.

A 3% operating profit margin would still be far below the 6% which is the industry average, but to the analysts tracking Sherwin-Williams' stock, it would be a "significant accomplishment for the division."

"It is very encouraging," says Steve Albert of Kidder Peabody. "In fact, the results for this quarter were above my expectations. I had expected March sales to go up less than 5% because Easter was in last year's quarter and it came later this year. It came in April."

For the quarter just ended March 31, the drug division generated $3.8 million in operating profits, an increase of 123% over the same period last year. Division sales for the year increased 10% to approximately $135 million.

Sales for the entire company, which includes the Sherwin-Williams retail paint stores as well as the company's coatings and chemicals division, in-

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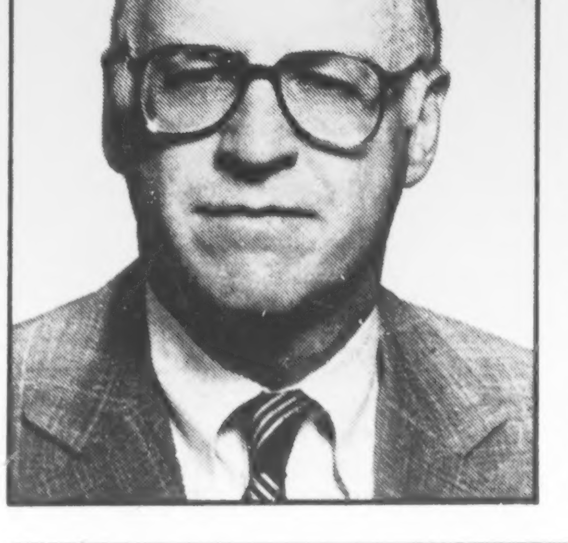

John G. Breen
Chairman, president & ceo
Sherwin-Williams Co.

"Gray Drug is making a concerted effort under Carl Bellini's leadership. Our first quarter has been very encouraging. Drug stores more than doubled their profits over 1983 [in the first quarter]. We are beginning to think more positively toward major expansion."

(Excerpt from Sherwin-Williams April 25 annual stockholders meeting.)

Generic, branded vendors compromise on patents

NEW YORK—A compromise reached after a marathon bargaining session between representatives of the branded and generic pharmaceutical industries is expected to pave the way for passage of the Drug Price Competition Bill by June.

Under the terms of the tradeoff, the branded manufacturers will receive limited patent extension for some of their drugs and the generic companies will get the right to submit Abbreviated New Drug Applications to manufacture generic versions of some 125 drugs approved after 1962.

The measure, if passed, is expected to double the number of multisource drugs available to the public. Among them are generic versions of such top-selling drugs as Inderal and Valium.

The bill (HR-3605), sponsored by Rep. Henry A. Waxman (D-Calif.) is also expected to spur pharmaceutical research as a result of increased effective patent life for drugs.

Four-year-old Marc's discount chain expands

CLEVELAND—Marc Glassman has added a fourth store to his growing deep-discount chain here—now the largest in this area and among the top 10 in the entire country.

And although the chain, called Marc's, is only four years old, one source predicted it will realize $55 million in sales by June. The chain includes Shulman's, the deep-discount store where Glassman apprenticed and which he bought last year. The Glassman empire also covers one franchise operation in Dallas called the Texas Drug Warehouse.

While sources said that Glassman, who could not be reached for comment, has no plans for further franchises, he is considering a fifth Marc's at a site south of Cleveland, possibly in Cuyahoga Falls.

This growth means Marc's is outpacing other area deep-discounters, including Fisher Foods' Jax, which has two stores here and whose expansion has yet to materialize, and Jody Fazio's one Jote's outlet. Marc's is also attempting to gain market share from other, conventional operators, including Revco, with its everyday low prices, and Gray, which offers healthy promotions.

Glassman's newest store opened last month in Great Northern Shopping Center, located in the Cleveland suburb of North Olmstead. Gray Drug operates a store within the same center and there is a Jax within five miles.

One source said this Marc's is expected to generate $14 million in sales during its first year. If the new store does as well as the Marc's in Southland Shopping Center, sales could reach $25 million.

While this new store is similar to other Marc's in size, layout and products, it has added some unique merchandising features.

For example, shoppers can buy 5 lb. of books for $1 and can even weigh them on a scale at the display. For those not yet old enough to read, there are rainbow-colored, soft-sculpted dolls and animals hanging from a wall and make-shift roof—at eye-level for tots seated in push carts. There are also tables of cowboy hats for winter-beaten Midwesterners who long for the warmer Southwest.

Rainbow-colored soft sculpted dolls and animals are displayed in "Marc's Zoo."

"There's a high emphasis on being unusual," said Mark Russell, manager of the new store. "Everybody throws their ideas together."

This Marc's, which is about 18,000 sq. ft. including storage, is very much like the other stores with promotional items, such as trial sizes, along the perimeter walls and everyday

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—News in brief—

Spring buying show May 21-23

NEW YORK—Over 200 chain drug execs will attend the combined Associated/Affiliated spring buying show at the Omni Park Central Hotel here May 21-23.

The show at the former New York Sheraton will include some 120 exhibitors, including the following first-timers: Coca-Cola, Mexico Industries, Jordache Electronics, Island Magic, Search Marketing, Hyman Products, Higgs Home Health Care and H&H International.

Chain drug members of each buying group will view exhibits on different floors from 9 a.m. to 5:30 p.m. on May 21 and 22, and will be free to visit both floors May 23 from 9 a.m. to 1 p.m.

Prior to the combined show, Affiliated will have showroom presentations for its members at its offices May 17-19.

On May 20 both organizations will have separate meetings. Affiliated will host its "What's Good with You" program that includes panel discussions on buying plans for the fall and producing gift catalogs.

On the same day, Associated will hold a nonluncheon membership meeting, chaired by David Eisenberg, senior vp of Peoples Drug Stores, where buyers will exchange ideas.

Eckerd to open 2nd photo lab

CLEARWATER, Fla.—Eckerd Drug Co. plans to open its second one-hour film processing mini-lab next month in the Tampa Bay area.

A third mini-lab will also be built here but no completion date has been given.

The chain installed its first 600-sq.-ft. mini-lab, called Eckerd Express Photo, last fall in an effort to increase its share of the 35mm processing business. Equipment in the center can process print film in four formats: 110, 126, 35mm and disc.

Walgreens changes purchasing personnel

DEERFIELD, Ill.—Walgreens has made some changes in its purchasing department. Steve Lubin, formerly a housewares/appliances division buyer, has been named buyer of toys and sporting goods.

Leo R. Titus has been assigned a new divisional purchasing position for electrical and personal care appliances. He was formerly housewares buyer. William F. Scranton, formerly responsible for auto supplies and hardware, has been promoted to Titus' former position as housewares buyer.

Promoted to assistant buyer for housewares/appliances, is Raymond L. Lalowski. He was previously merchandise coordinator in the fashion division. Also, Teresa D. Young has assumed Lalowski's previous position. She was formerly coordinator for fashion accessories. Linda H. Togliatti has been promoted from cosmetics supervisor to merchandise coordinator, replacing Young.

Paulini named Jax chief

CLEVELAND—Fisher Foods has hired Bob Paulini to head its two-store Jax deep-discount drug store division. Paulini, formerly a buyer and merchandiser with Kroger's Cleveland buying office, replaced Fred Barney, who left Jax to head up Medicare-Glaser's deep-discount operations.

At Kroger, Paulini was in charge of buying and merchandising for a wide variety of product areas for both Kroger food stores and Kroger's warehouse supermarket units called Barney's.

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Eckerd vs. Merck suit set for trial

CLEARWATER, Fla.—The Jack Eckerd Corporation and Merck & Company, one of the country's largest manufacturers of pharmaceutical products, are set to go to trial over charges that Merck, by adopting a one-tiered pricing policy, created a monopoly for its products designed to "squeeze out competition at the wholesale level."

A Federal District court judge in Tampa last month denied Merck's request for a summary judgment which would have dismissed the complaint as not justified. Judge Terrell Hodges said the trial will take place in January 1985.

Eckerd filed the complaint in April 1982, ten months after Merck switched from a two-tiered pricing structure to a one-price-for-all program. Before making the switch Merck had been selling to wholesalers at prices approximately 5% less than they were charging retailers who bought direct.

Eckerd, like many other large chain retailers, was frequently able to get a better price for Merck products by negotiating with wholesalers than they could by negotiating with Merck. To get the business, wholesalers would negotiate their 5% spread to pass on volume discounts for bulk purchases.

Now that there is one price for all, however, wholesalers have no spread with which to negotiate and Eckerd alleges in its complaint that this means that Merck has created a "monopoly" for its products.

Eckerd also alleges that the change is costing the company $72,000 a month in higher acquisition costs and they are asking the court for damages treble the amount it loses each month the system continues.

When the suit was originally filed, Merck had countered by asking for a dismissal of the complaint on the grounds that Eckerd could not demonstrate that Merck had possession of a monopoly "in a relevant market," and further, Merck's attorneys argued, even if Eckerd could prove a monopoly existed in a relevant market, they could not claim their alleged loss was an antitrust injury.

Merck based its request for a summary judgment on Section Two of the Sherman Act which specifies that a plaintiff must show possession of monopoly power in "the relevant product

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House bans state requirements

Future looks bright for copay relief

WASHINGTON—The drug store industry is now within striking distance of securing Congressional relief from one of its most pressing third-party Rx reimbursement problems—Catch 22 Medicaid rules forcing pharmacies to absorb "copay" costs for thousands of indigent patients.

At presstime the House had already passed legislation prohibiting states from imposing such copayment requirements on prescription drugs for Medicaid patients, and according to one drug store industry lobbyist, "we're at least halfway home."

Reversing that 1982 Rx copay law has been a top priority for both chain and independent drug store lobby groups concerned that the controversial requirements would create a multimillion dollar drain on the profits of participating Medicaid pharmacies.

According to National Association of Chain Drug Stores president Robert Bolger, those Federal copay rules have already "imposed a loss of more than $40 million annually on retail pharmacies."

Congress created the problem inadvertently two years ago while drafting Medicaid "reform" provisions in the Tax Equity and Fiscal Responsibility Act.

That law authorized states to trim their program costs by requiring Medicaid patients to share part of the cost of health benefits. But at the same time, that statute prohibited the denial of health care services to patients unable to afford these "copays."

As a result, drug stores participating in the program are effectively forced to absorb these costs for all Medicaid patients who refuse to pay their share.

Although the copay amounts are nominal (50¢ to $1 per Rx), they represent a potentially significant profit drain for drug stores.

Despite repeated appeals from chain and independent drug store groups for Reagan Administration relief from the copay provisions, it appears unlikely that Federal Medicaid officials will take any action unless Congress moves to amend the law.

(A Health Care Financing Administration response to the industry's Medicaid reimbursement concerns is now under review by the agency, but reportedly that response will not provide for any regulatory relief from the copay trap.)

Although drug store industry leaders are encouraged by the House action last month, they acknowledge that it is still far from certain whether the Senate will approve similar legislation.

The House ban on Rx copays, originally drafted by Health Subcommittee Chairman Henry Waxman (D-Calif.), was passed as an amendment to this year's Omnibus Budget Reconciliation package.

The Senate has not voted on its companion budget bill, and at presstime the legislation under debate in that chamber contained no provision for Medicaid copay relief.

Indications are that pharmacy groups will wait until the two conflicting versions reach a joint Congressional conference committee before pressuring Senate leaders to accept the House-passed provision.

FINANCIAL

Inclement weather saps Hook 1st qtr. earnings

INDIANAPOLIS—Inclement weather sapped Hook Drug's first quarter earnings, according to chain chairman and president J. Douglas Reeves.

For the period ended March 31, Hook's sales rose 9.1% to $81.7 million from $74.9 million in the comparable quarter last year, but earnings dropped 28.5% to $1.4 million from $1.9 million.

Income per share declined 27% to 32¢ from 44¢ in 1983. Reeves said that "weak January and February sales" contributed to the 12¢ drop in earnings per share.

Reeves added, "More typical March levels of sales and earnings could not overcome the momentum lost during the opening two months of the quarter. We consider March's results to be more reflective of our business than those of January or February, and we remain confident about 1984 results."

In addition to the harsh weather in Hook's trade area, Reeves pointed out that 1984 results were up against an extremely strong 1983, when earnings jumped 347%.

Thrift sales remain steady

PITTSBURGH—Sales at Thrift Drug Co. for the five weeks ended March 31 were $50 million, the exact amount reported during a similar period in 1983.

However, Thrift's parent company, J. C. Penney, registered a sales increase of 7.7%, to $940 million from $873 million in its domestic stores and catalogs.

During the nine-week period ended March 31, Thrift's sales increased by 3.7%, to $93 million from $90 million. During the same period, sales at Penney's stores and catalog rose 12.2%, to $1.6 billion from $1.4 billion.

Fiscal year-end results

McKesson net rises 21.5%

SAN FRANCISCO—McKesson Corp. reported that net income for the year ended March 31 increased 21.5% to $68.7 million from $56.5 million in fiscal 1983. Earnings per share were up 14% to $3.53 from $3.10.

Revenues for the year increased to $4.3 billion from $3.8 billion, an 11.7% gain.

Despite the record results, Neil E. Harlan, chairman and ceo, said that "our performance did not live up to our expectations."

Harlan cited "margin pressures in our chemical distribution business and the impact of the slowdown in the inflation rate on our drug distribution and wine and spirits businesses."

But he added that he did not expect those factors "to have a significant impact on fiscal 1985."

For the fourth quarter, revenues increased 14% to $1.1 billion from $962,142, but net income declined to $13.9 million from $15.2 million. However, operating profit and pretax income for the quarter were up.

Harlan said the reason for the decline in the fourth-quarter net was a higher tax rate (46% vs. 38% last year), as well as a gain last year of $2.5 million (pretax) from the settlement of insurance claims.

McKesson reported that the profits of the drug and health care group, the company's largest segment, declined 2% to $60.1 million for the year, while revenues increased 15.6% to $2.5 billion.

The company said the profit decline was the result of a slowdown in the inflation rate, a change in the business mix to lower margin sales and increased competition in certain markets.

For the fourth quarter the drug and health care group's operating profits increased 15.8% to $14.2 million.

Dart buyout plan boosts stock 39%

Name	Symbol	STOCK PRICE							TREND TO MARKET				EARNINGS/SHARE					P/E	DIVIDENDS			FINANCIAL POSITION					
		4/6—4/23/84							Price Trend (% per day)		Volume Trend (% per day)			Latest 12 Months vs Preceding 12 Months Change											Last Fiscal Year (Per Share)		
		High	Low	Close	Change, Amt.	Pct.	52-Week High	Low	Last 30 Days	Last 5 Days	Last 30 Days	Last 5 Days	Last Fiscal Year	Amt.	Pct.	5-Year Annual Growth Rate	Profit Margin	Latest P/E Ratio	Indicated Dvd Rate Amt.	Yield	Last X-Dvd Date	Last Fiscal Year Revenue	Earnings	Current Ratio	Long Term Debt	Common Stock Equity	Last Balance Sheet Date
—	—	$	$	$	$	%	$	$	%	%	%	%	$	$	%	%	%	—	$	%	—	$ Mil.	$ Mil.	—	$	$	—
Chain Store transactions																											
Adams Drug	ADG	15.75	13.25	14.63	1.50	11.43	24.88	12.63	.06	-.96	-8.51	2.50	1.74	.62 F	55.3	40.0	2.4	8.4	.04	.3	03-09-84	302.1	7.1	2.8	8.00	9.74	1282
Am Stores	ASC	30.13	27.25	29.13	-1.00	-3.32	44.00	24.97	-.67	-.13	5.80	9.15	3.61	.92 F	34.2	62.0	1.5	8.1	.64	2.2	03-22-84	7983.7	117.9	1.4	11.95	12.14	0183
Begley Drug	BGLY	16.00	16.00	16.00	.00	.00	24.00	16.00	.00	.26	-1.66	.00	1.47	1.46 N	NC	-10.0	1.4	11.0	.68	4.3	04-13-84	56.8	.8	1.8	11.50	17.52	0383
Big B	BIGB	11.13	10.25	10.25	-.75	-6.82	14.50	9.06	-.04	-1.29	.84	4.74	.53	.14 F	35.8	22.0	3.0	19.3	.00	0	09-21-83	117.0	3.5	2.5	.21	3.36	1282
Dart Drug Corp	DRUGA	89.00	64.00	89.00	25.00	39.06	148.00	57.00	-.06	7.22	7.60	75.61	5.43	6.32 N	207.2	67.0	3.1	9.5	.13	.1	03-05-84	291.8	9.1	2.0	12.01	28.91	0183
Drug Sys	DRGS	5.50	5.38	5.50	.00	.00	9.31	5.25	-.78	.75	-.35	-66.86	.55	.65 N	NC	NC	2.6	8.5	.00	0	01-25-84	26.7	.7	2.8	2.40	3.12	0383
Eckerd, Jack	ECK	24.50	21.63	22.25	.38	1.71	34.88	21.63	-.46	-1.54	4.78	-4.25	1.91	.30 S	16.3	6.0	3.1	10.4	1.00	4.5	03-12-84	2325.0	71.7	2.0	.30	15.17	0783
Fay's Drug	FAY	10.25	9.13	9.50	.00	.00	14.50	8.81	-.63	-.78	1.53	.32	.60	.13 F	27.6	56.0	2.6	15.8	.14	1.5	03-19-84	312.4	8.1	2.0	2.17	2.23	0183
Genovese Drug	GDX	13.25	12.88	13.00	-.13	-.95	20.50	9.31	-.41	.29	-.65	-17.65	.96	.29 F	43.2	99.0	2.0	13.5	.20	1.5	03-29-84	193.8	3.9	1.7	1.90	4.95	0183
Hook Drugs	HOOK	21.25	18.75	21.00	2.50	13.51	29.75	18.50	-.57	2.35	7.47	19.25	2.01	.49 F	32.2	7.0	2.7	10.4	1.00	4.8	04-09-84	320.5	8.7	1.7	2.86	9.37	1282
Longs Drg Strs	LDG	40.75	38.50	38.50	-.50	-1.28	50.13	38.25	-.41	-.55	.47	3.42	3.43	.51 F	17.4	10.0	3.0	11.2	1.12	2.9	02-29-84	1214.4	36.4	1.8	.00	18.76	0183
Pay N Save	PAYN	18.00	17.00	17.38	-1.00	-5.44	28.75	17.00	-.70	-.47	-1.06	11.54	2.02	.61 F	43.2	1.0	2.5	8.6	.60	3.5	02-17-84	1220.5	30.1	2.3	17.01	14.32	0183
Pay Less NW	PAY	16.50	15.38	16.25	.63	4.00	20.19	14.00	-.03	.80	-2.23	19.42	1.35	.28 F	26.1	1.0	2.9	12.0	.34	2.1	06-18-84	852.9	24.7	2.0	5.26	6.07	0183
Perry Drug	PDS	15.88	15.25	15.88	.50	3.25	22.38	12.50	.09	.74	-2.27	-27.27	1.02	.37 Q	50.0	11.0	1.6	14.3	.24	1.5	02-21-84	285.5	4.5	2.2	2.78	9.75	1083
Revco Drug	RDS	31.50	24.00	24.75	-6.25	-20.16	37.50	24.00	-.68	1.05	11.98	-22.38	2.13	.56 N	29.7	24.0	3.7	10.1	.68	2.7	02-17-84	1792.8	66.5	2.5	1.33	11.59	0583
Rite Aid Corp	RAD	19.50	18.50	18.88	-.13	-.66	23.44	17.88	.09	-.43	3.75	23.32	1.47	.29 F	24.5	31.0	5.1	12.8	.41	2.2	04-10-84	1223.3	62.2	1.7	.59	6.19	0283
Thrifty Cp	TFD	14.00	12.88	13.00	-.25	-1.89	25.25	11.50	-.02	-.80	-3.66	2.91	1.13	.23 Q	24.7	18.0	1.9	11.2	.52	4.0	02-06-84	1187.8	22.5	1.5	5.39	6.83	0883
Walgreen Co	WAG	34.00	31.38	33.50	1.25	3.88	40.38	30.00	-.21	.31	-.23	11.48	2.24	.46 Q	24.4	34.0	2.9	14.3	.72	2.1	05-14-84	2360.6	69.0	1.6	1.76	11.47	0883
Wholesaler's transactions																											
Bergen Bruns	BBCA	24.50	23.63	23.63	.13	.53	39.50	21.00	-.01	-.54	1.81	-2.86	1.60	.22 S	14.6	38.0	1.4	13.7	.32	1.4	01-26-84	1452.0	20.0	1.6	1.22	9.99	0883
McKesson Cp	MCK	37.00	32.88	36.50	2.75	8.15	51.00	32.50	.01	.88	.98	6.90	3.44	.38 N	11.7	5.0	1.6	10.1	2.40	6.6	02-24-84	4053.7	63.2	1.6	15.78	29.70	0383
Foxmeyer Cp	FOXM	25.00	24.25	24.50	-.50	-2.00	28.50	22.25	.02	.14	3.42	-25.90	.94	1.43 N	NC	103.0	.7	17.1	.00	0	00-00-00	351.1	2.3	2.2	15.38	3.87	0383
Ketchum	KCH	16.13	14.50	15.38	-1.00	-6.11	21.00	11.19	-.22	.27	-9.87	-71.88	.89	.51 N	113.3	97.0	.4	16.0	.00	0	09-26-83	211.4	.9	1.5	5.87	5.68	0483
Owens & Minor	OBOD	13.25	12.75	13.00	-.38	-2.80	19.25	12.75	-.20	.22	1.89	10.17	1.41	.64 F	83.1	8.0	1.2	9.2	.36	2.8	03-09-84	255.2	3.0	2.8	5.07	11.69	1283
Spectro Indus	SPO	20.13	17.75	19.25	1.50	8.45	28.75	15.50	.21	.36	-6.44	22.11	1.35	.31 N	25.0	48.0	1.6	12.4	.14	.7	03-30-84	339.1	5.4	1.7	2.86	7.24	0383
Manufacturer's transactions																											
Abbott Labs	ABT	44.38	40.25	43.63	3.13	7.72	53.38	38.25	.17	.50	.51	-27.00	2.86	.49 F	20.6	28.0	11.9	15.3	1.20	2.8	04-09-84	2927.9	347.6	1.9	4.00	11.71	1283
Am Home Prod	AHP	54.25	52.13	52.75	.25	.48	54.75	42.88	.05	-.11	.21	-9.52	4.00	.41 F	11.4	17.0	12.9	13.2	2.64	5.0	02-06-84	4856.5	627.2	3.0	.00	13.14	1283
Baxter Travenol	BAX	17.13	15.63	17.00	.13	.74	31.31	15.63	-.19	1.82	3.55	-41.11	1.45	.23 F	18.8	28.0	11.8	11.7	.33	1.9	03-23-84	1842.5	218.1	2.0	1.18	7.52	1282
Block Drugs Co	BLOCA	27.25	27.25	27.25	.00	.00	34.47	23.31	.01	.23	-1.72	.00	2.85	.47 N	17.6	14.0	9.7	8.7	1.00	3.7	02-24-84	219.0	21.3	2.5	2.35	17.84	0383
Bristol-Myers	BMY	47.38	45.00	46.63	.25	.54	48.00	35.75	.13	-.06	-2.38	-6.48	3.00	.41 F	15.8	19.0	10.4	15.5	1.60	3.4	04-02-84	3917.0	408.0	2.4	.71	13.99	1283
Carter-Wallace	CAR	22.75	21.50	21.88	.63	2.94	29.00	18.00	-.53	.07	1.97	42.44	2.12	.31 N	15.5	35.0	5.7	9.5	.48	2.2	04-13-84	289.9	16.5	2.6	1.57	20.15	0383
Cooper Labs	COO	18.88	15.25	18.25	3.00	19.67	18.88	10.38	2.06	1.53	5.75	52.53	NA	NA	NA	NA	NA	NA	.12	.7	03-12-84	NA	NA	NA	NA	NA	NA
Forest Labs	FRX	24.38	19.00	20.88	1.75	9.15	40.75	16.13	1.10	.80	1.42	54.47	.48	-.02 N	-3.5	57.0	13.4	38.7	.00	0	01-14-83	18.6	2.5	3.7	.37	3.03	0383
ICN Pharm	ICN	6.50	5.88	6.13	-.13	-2.00	15.25	4.88	-.11	-.77	-2.52	12.30	.22	-.20 F	-47.6	33.0	5.1	27.8	.00	0	00-00-00	37.0	1.9	1.8	.65	3.81	1182
Key Pharm	KPH	14.25	12.50	13.25	.00	.00	25.94	12.00	-.56	-.58	2.79	-6.40	.51	.17 F	50.0	60.0	14.8	26.0	.16	1.2	03-12-84	127.3	18.8	1.6	.03	1.14	1282
Lilly Eli Co	LLY	66.13	63.25	64.38	1.13	1.78	68.38	56.75	.15	-.28	3.85	-.75	6.13	.71 F	13.0	12.0	15.1	10.5	2.90	4.5	02-08-84	3033.7	457.4	1.9	1.23	28.86	1283
Lee Pharm	LPH	2.75	2.50	2.63	.00	.00	4.38	2.00	-.43	-.84	1.07	63.01	-.49	.54 Q	NE	-57.0	-14.3	NE	.00	0	00-00-00	7.0	-1.0	2.6	.41	1.53	0983
Marion Labs	MKC	35.75	31.50	35.00	2.25	6.87	48.00	27.25	.41	.60	-2.68	14.79	.78	.43 S	72.8	15.0	8.2	34.3	.40	1.1	03-14-84	181.2	14.8	2.5	.05	5.93	0683
Merck & Co	MRK	97.50	92.50	95.50	2.75	2.97	104.63	83.63	.16	.03	-.63	-15.64	6.10	.49 F	8.7	7.0	13.9	15.7	3.00	3.1	03-01-84	3246.1	450.9	1.7	5.21	32.92	1283
Morton Thiokol	MTI	84.25	73.63	80.25	4.75	6.29	84.25	60.00	.98	-.13	4.71	-28.57	5.15	1.09 S	23.1	17.0	5.2	13.8	1.76	2.2	02-23-84	1509.2	78.5	1.4	8.90	32.79	0683
Newport Ph	NWPH	4.88	4.50	4.50	-.50	-10.00	11.38	4.50	-.68	-.61	1.38	28.79	-.03	-.09 N	NE	14.0	-3.4	NE	.00	0	00-00-00	8.8	-.3	3.7	.24	1.12	0483
Pfizer Inc	PFE	35.25	32.50	33.00	.00	.00	44.75	32.25	-.49	-1.25	-.49	-5.10	2.73	.62 F	29.3	17.0	11.9	12.1	1.32	4.0	01-26-84	3750.0	447.1	2.1	3.03	13.67	1283
Reid Prov Labs	REID	4.00	3.75	3.75	.00	.00	6.09	2.50	-.36	.17	-2.85	-25.86	.10	.06 S	85.7	64.0	6.1	28.8	.05	1.3	12-09-83	11.4	.7	3.1	.03	.80	0683
Robins, AH	RAH	17.25	15.88	16.63	-.25	-1.48	29.38	15.88	-.26	1.07	2.78	-46.30	2.40	.42 F	21.2	20.0	10.3	6.9	.68	4.1	02-03-84	563.5	58.2	3.2	1.30	13.99	1283
Rorer Group	ROR	31.50	29.00	30.50	1.13	3.83	34.25	25.25	.38	.04	4.36	-23.71	2.02	.22 F	12.2	11.0	8.9	15.1	1.08	3.5	02-06-84	475.3	42.4	2.0	2.18	10.43	1283
Scherer RP Co	SCHC	13.25	12.13	12.25	-.63	-4.85	29.63	12.13	-.04	.03	-5.99	15.43	1.13	-.39 N	36.7	2.0	5.2	18.3	.32	2.6	03-14-84	169.7	8.8	2.5	4.57	10.88	0383
Searle, GD	SRL	46.50	39.38	41.50	-4.75	-10.27	55.88	39.38	-.44	.18	3.53	-37.15	2.39	-.17 F	-6.6	14.0	11.6	17.4	.52	1.3	02-06-84	946.0	110.0	2.2	4.10	13.32	1282
Squibb Corp	SQB	43.63	40.00	43.25	-.38	-.86	55.63	38.25	-.38	.98	2.31	-26.07	3.31	.30 F	9.9	6.0	9.8	13.1	1.44	3.3	02-10-84	1768.9	173.3	2.3	6.54	21.29	1282
Sterling Drug	STY	26.63	25.38	25.50	-.50	-1.92	29.63	23.50	.21	-.18	2.08	-2.35	2.24	.07 F	3.2	8.0	7.2	11.4	1.16	4.5	05-01-84	1901.2	136.8	2.8	1.19	14.16	1282
Syntex Corp	SYN	41.88	38.88	41.13	2.38	6.13	61.50	37.75	.10	-.01	-.77	-24.01	4.30	.40 S	9.9	36.0	17.2	9.3	1.60	3.9	02-06-84	870.2	149.3	2.2	3.37	18.11	0783
Thompson Med	TM	21.88	17.50	21.38	1.00	4.91	26.00	12.75	.98	1.48	3.26	-5.82	1.65	.49 F	42.2	89.0	11.0	13.0	.40	1.9	03-26-84	149.4	16.5	4.5	.00	4.53	1182
Upjohn Co	UPJ	72.25	65.38	67.75	2.25	3.44	72.25	50.75	.56	-.56	2.97	3.82	5.28	1.10 F	26.3	1.0	8.1	12.8	2.56	3.8	03-30-84	1986.1	160.2	2.2	18.02	34.74	1283
Warner-Lambrt	WLA	35.13	32.75	34.63	1.13	3.36	36.75	26.38	.06	.15	-.58	3.75	2.51	.46 F	22.4	-2.0	6.5	13.8	1.48	4.3	02-06-84	3108.3	200.5	1.9	7.53	17.75	1283

All data is based on sources believed to be reliable, but its accuracy is not guaranteed. Every effort will be made to correct errors, when discovered, in future issues.

KEY: NA—Not Applicable NC—Not Calculable NE—Negative Earnings Q-First Quarter S-Six months N-Nine months F-Fiscal year
**—Other than a quarterly multiple resulting from a fiscal year change.*

Data and Table Provided by Media General Financial Services, Inc., Richmond, VA 23261

1983 figure totals $42M

Top chains hike TV ad spending 25%

NEW YORK—The top 15 chain drug television advertisers increased their local TV ad spending by an average of 25% in 1983, according to the Television Bureau of Advertising.

The 15 chains spent a total of $42 million last year, compared to $34 million in 1982. The upsurge in local spending, said an association representative, reflected the need to promote the chains' images locally.

Total drug store local television spending increased 21% to $55 million.

Eckerd was again the biggest TV advertiser, outspending its nearest rival, Revco, by more than 2 to 1. Eckerd's expenditures for local electronic ads increased 3% to $11 million compared to Revco's $5.6 million.

While Eckerd's local budget remained fairly constant, its spending for regional network TV dropped dramatically to $109,200 from $324,900 the previous year. A chain spokesman said, "Anyone who spends money on network TV is wasting a lot of money." Most of Eckerd's regional network TV money is spent in the Southeast.

Although Eckerd was the biggest spender locally, the company that had the biggest percentage increase was Drug Emporium, the fast-growing chain of company-owned and franchised deep-discount stores. Drug Emporium's TV spending increased 183% to $1.1 million. Phil Wilber, president, said he was "surprised the numbers weren't even higher." He said the TV ad blitz reflected the increase in store count to 30 last year compared to 17 in 1982, as well as the growth in volume.

Gray Drug's TV spending was also significantly higher. The Cleveland-based chain more than doubled its 1983 TV ad dollars to $1.1 million.

On the West Coast, the biggest spender was Thrifty, with $4.7 million going for local TV ads. The Los Angeles-based chain allocated more than twice as much as Longs, the second leading West Coast TV advertiser. Longs' expenditures were up 21% to $2 million. Third-ranked Pay Less (Calif.) increased its local TV ad budget by 64% to $1.3 million.

The only West Coast chain that decreased its budget was Pay 'n Save. The Seattle-based chain spent $1.5 million in 1983, 13% less than in the previous year.

Overall, only three chains besides Pay 'n Save decreased their TV spending. They were Hook Drug, down 13% to just under $1 million; Genovese, down 8% to $1 million, and Osco, down 1% to $1 million.

Top 15 chain drug TV advertisers

Company	1982	1983	% change
1. Eckerd	$11,092,900	$11,405,700	+ 3
2. Revco	3,271,900	5,624,400	+ 72
3. Thrifty	3,518,200	4,727,000	+ 34
4. Thrift	1,566,700	2,917,900	+ 86
5. Walgreens	2,195,400	2,822,200	+ 29
6. CVS	1,914,300	2,265,400	+ 18
7. Peoples	1,714,400	2,227,900	+ 30
8. Longs	1,689,500	2,045,100	+ 21
9. Pay 'n Save	1,683,200	1,458,400	– 13
10. Pay Less/Calif.	805,200	1,319,600	+ 64
11. Drug Emporium	407,300	1,153,700	+183
12. Gray	544,700	1,115,800	+105
13. Genovese	1,114,300	1,021,400	– 8
14. Osco	1,093,800	1,015,000	– 1
15. Hook	1,140,900	991,300	– 13

Source: Television Bureau of Advertising

Calif. town attracts 3 big chains

MORGAN HILL, Calif.—By early 1985, this town of 20,000 residents, will have three major drug chains: Thrifty, which opened an 18,000-sq.-ft. "Perfecto" last December; Longs, which purchased the Bertelli's store in the Tennant Station Shopping Center in January 1984 and Pay Less NW, which will open a 29,584-sq.-ft. store early next year.

What's the attraction? Right now, Morgan Hill, located 25 miles south of San Jose, is a growing bedroom community of Silicon Valley. But city fathers aren't satisfied just to house Silicon Valley workers; they are actively trying to persuade high-tech companies in the San Jose area to move to Morgan Hill.

The store Longs bought from Bertelli's is 19,500 sq. ft. overall, much smaller than the typical Longs unit of 25,000 to 27,000 sq. ft. The store is being remodeled and the layout changed to conform to the Longs format.

Dan Bertelli, president of Bertelli's, says he sold the store to go into semiretirement. He will continue to operate four smaller stores in surrounding towns.

Undoubtedly, Bertelli's decision to sell was hastened by the prospect of having to compete with the two major chains (Thrifty and Pay Less) that have opened new stores in a locale still waiting for the customer count to catch up with the growth in store count.

Vendor sales of housewares increase 12%

Housewares manufacturers' total dollar sales jumped 12% during 1983 to $22.4 billion. That's the first double-digit sales gain since 1980.

This research comes from the 17th annual B. Angell & Associates study of the housewares industry. The study revealed that discounters now generate about 30% of housewares sales; catalog showrooms, 9%; department stores, 8%; food stores, 6%, and drug stores, 5%. Others, including variety stores and hardware units, account for the rest of the pie. Although drug chains have worked hard to build housewares sales, their percentage actually dropped from 6% to 5%.

Other facts uncovered include:

- Electric housewares accounted for 35% of 1983 sales.
- Cookware sales represented 12% of sales.
- Almost 40% of the manufacturers participating in the survey had a $5 million or more volume in 1983, up from 36% last year.
- White is expected to be the most popular color in 1984 while almond was last year's winner.
- Prices remained stable last year, with 66% of those queried reporting no price increases.
- In 1983, 83% of those questioned said they filled orders immediately.
- And, 48% said they manufactured items totally within the United States.

Seasonal Deals prior to peak demand in Summer, Fall & Winter.
HERPECIN-L®
Cold Sore Lip Balm. "It Works!"
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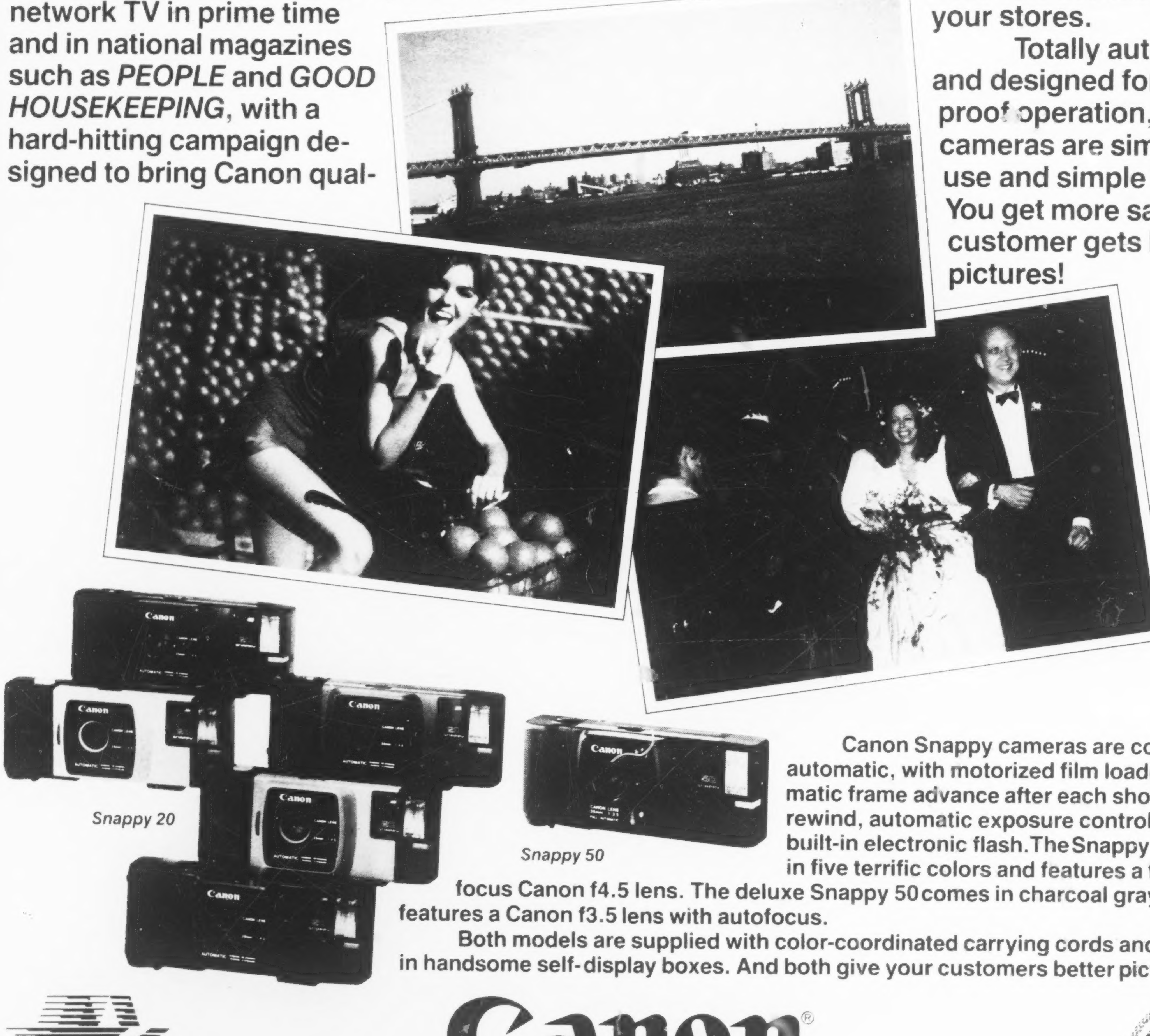
BETTER PICTURES
The Canon Snappy. Quality at the Right Price!

The Canon Snappy is a totally new type of camera, combining snapshot simplicity with Canon 35mm quality. At the right price!

Snappy is being heavily advertised on network TV in prime time and in national magazines such as *PEOPLE* and *GOOD HOUSEKEEPING*, with a hard-hitting campaign designed to bring Canon quality within the reach of millions of additional customers. You can tie-in to this national effort with a wide variety of point-of-sale materials available for your stores.

Totally automatic and designed for foolproof operation, Snappy cameras are simple to use and simple to sell. You get more sales, the customer gets better pictures!



Canon Snappy cameras are completely automatic, with motorized film loading, automatic frame advance after each shot, power rewind, automatic exposure control and a built-in electronic flash. The Snappy 20 comes in five terrific colors and features a fixed-focus Canon f4.5 lens. The deluxe Snappy 50 comes in charcoal gray and features a Canon f3.5 lens with autofocus.

Both models are supplied with color-coordinated carrying cords and packed in handsome self-display boxes. And both give your customers better pictures!

The Official 35mm Camera of the 1984 Olympic Games

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Snappy 50/20

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• John Schlegel: new start for pharmacy—p. 40

PHARMACY ℞

Limited market tests O.K.'d

F.D.A. gives go-ahead for consumer Rx ads

ROCKVILLE, Md.—Fresh test results from a new Government study of "direct-to-consumer" prescription drug advertising have encouraged the Food and Drug Administration to authorize manufacturer experiments of Rx ads directed to the general public.

Among other things, the F.D.A. study concluded that consumer-oriented prescription drug advertisements can successfully communicate "a large amount of risk information" to patients, and that television commercials are even more effective than magazine ads for informing the public about Rx drug risks and benefits.

On the basis of those research findings, F.D.A. officials announced that the agency will soon propose new regulations allowing drug manufacturers to conduct "limited market tests" of direct-to-consumer Rx ads in order "to obtain more information about the effects of such advertising under more realistic conditions."

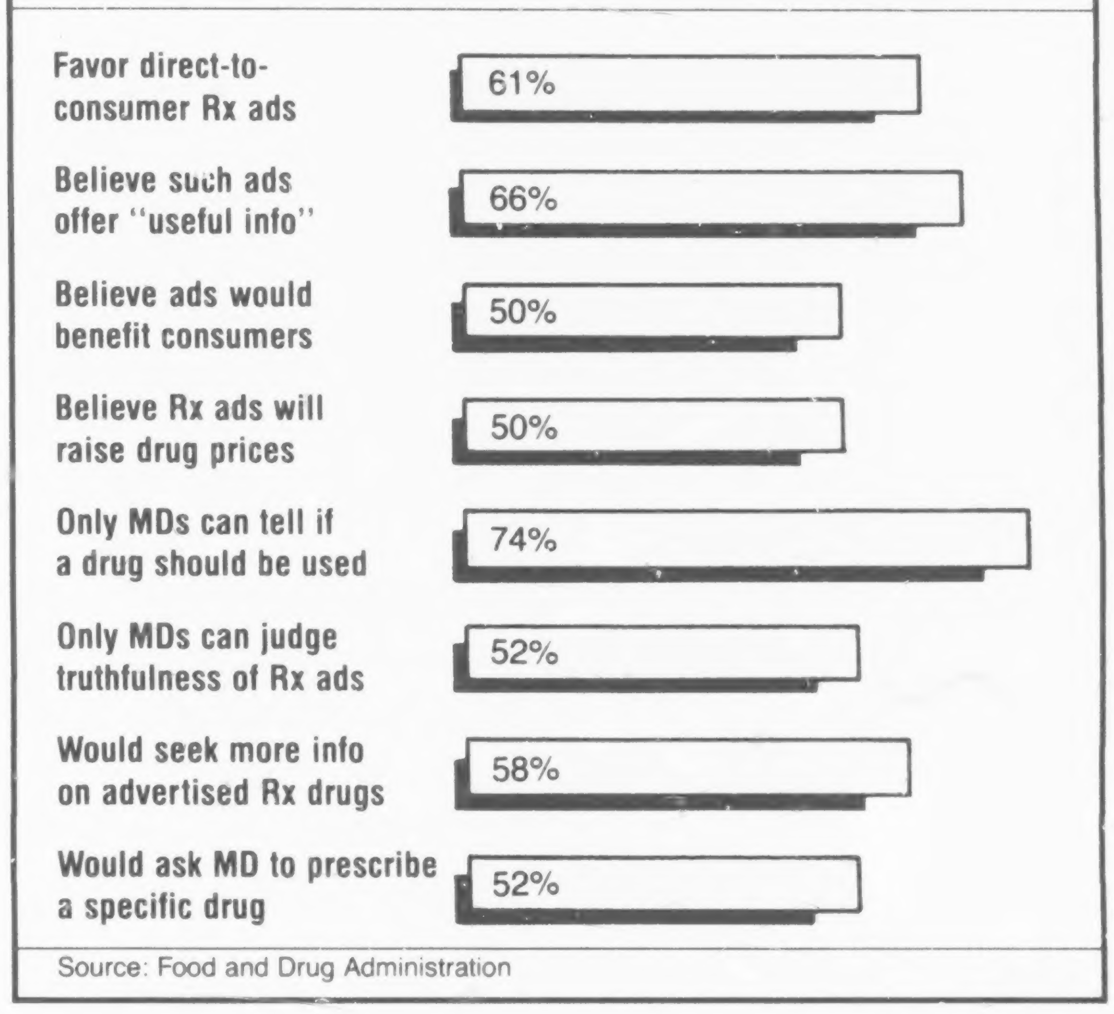
Although several major pharmaceutial firms are eager to begin promoting prescription products directly to consumers, more than a year ago former F.D.A. Commissioner Arthur Hull Hayes Jr. asked the industry to comply with a voluntary "moratorium" on such ads to give the agency time to develop guidelines for consumer Rx advertising.

The results of the new F.D.A. study—the first of several Government and private research projects designed to gather information on the effects of patient-oriented prescription drug promotions—provide fresh ammunition for supporters of such consumer Rx ads.

Those findings, which were released by the agency late last month, were based on "recall, knowledge and attitude" surveys of more than 1,500 randomly recruited consumers in

Continued on page 38

F.D.A. poll results: Does the public want direct-to-consumer Rx advertising?



Source: Food and Drug Administration

N.Y. Rx group joins mail-order script fray

MAMARONECK, N.Y.—The Westchester County Pharmaceutical Society is marshaling opposition to a new pilot mail-order drug program by General Motors Corporation and the United Auto Workers.

The mail-order program is administered by Metropolitan Life Insurance Company and serviced by Express Pharmacies, Pittsburgh, and National Rx Services Inc., Columbus, Ohio.

"General Motors, the U.A.W., Blue Cross and Metropolitan Life Insurance Company have conspired to put you [the pharmacist] out of business," society president Bernard Wally warned in a letter to members.

"This is really a concerted effort to destroy retail pharmacy. We are urging our members and other interested parties to read thoroughly and understand the brochure that the U.A.W. has distributed to their participants."

While General Motors is the target of the society's protests, all auto manufacturers' employees represented by the U.A.W., IUE, URW as well as unrepresented hourly and salaried employees, retirees and surviving spouses are eligible to participate in the pilot program.

In its presentation to the union membership, G.M. claimed that the two-year mail-order prescription drug pilot program will enable participants to meet their nonemergency prescription drug needs with fewer purchases and at a lower cost.

It will be particularly beneficial, according to G.M., to those taking medications for chronic conditions.

"We've been looking at proposals for this type of program since 1981," said James Ball, benefits administrator for the auto company. "Mail-order programs are really nothing new. Many other companies have had them for years."

Ball explained that saving workers' money and offering them extra convenience was G.M.'s primary goal for the program.

Westchester County, N.Y., pharmacists are not the only ones concerned about the loss of

Continued on page 42

Friends of Israeli university honor Eisenberg

The American Friends of the Hebrew Univeristy's Pharmaceutical division are honoring David H. Eisenberg (inset) sr. vp marketing for Peoples Drug Stores with the Torch of Learning Award. Proceeds from a dinner in New York this month will go toward an Eisenberg Chair at the Jerusalem university (shown above). See story page 40.

Pa. rejects pharmacy copay plan

HARRISBURG, Pa.—A proposal to have Medicaid recipients in Pennsylvania pay a portion of their medical and prescription costs was defeated by the state Regulatory Review Commission.

The rejection of the copay proposal, which has been under attack by pharmacy groups because it does not mandate payment by indigent patients, is perhaps the first by any state in the nation.

The proposed rule would have required that Medicaid patients pay 50¢ for a prescription, $1 for a doctor's office visit and $3 a day for in-patient hospital care.

Savings to the state were estimated at $17 million a year, resulting primarily from decreased use of medical services by patients.

Walter Cohen, secretary of the Public Welfare Department, said the Administration will now have to consider other

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Consumers may be losers in cost-containment battle

BENCHMARKS

By Joseph Caputo, R.Ph.
Pharmaceutical Editor

There's a quiet struggle going on today in the health care field, but most consumers are only dimly aware of it. It involves their right to select their own providers—a right that is slowly being eroded by big business, Government and insurance firms in the name of cost containment.

Health care providers and a few knowledgeable consumers continue to fight a rear-guard action aimed at maintaining some degree of independence from the cost accountants and actuaries, but results haven't been encouraging.

The trend really got going when the Reagan administration relaxed the freedom of choice provision in the original Medicaid legislation, giving states the option to experiment with various cost-cutting approaches, including contracting with special providers of drugs and services.

Private third-party payers, recognizing a good thing when they saw it, began to follow suit.

For example, municipal workers, school teachers and auto workers have all received letters from the administrators of their health plans urging them to participate in mail-order prescription plans or preferred provider organizations.

Inducements include lower copayments ($2 instead of $3) per script and three-month supplies of drugs rather than one-month supplies. Never mind that there are already too many drugs in most medicine cabinets.

Preferred provider organizations (PPO's) also stipulate what vendors are selected to provide enrollees' prescription services. Besides taking away freedom of choice, this type of cost-cutting approach also opens the door for all types of under-the-table deals.

Patient/employees lose a lot when the right to select their medical health care providers is taken away by Government, employers or insurance companies. Any semblance of quality is removed from the system and only the lowest cost providers are selected for participation in the plan.

Such a system may work well in an assembly line environment which has a built-in system of checks and balances between production and quality control. But the same system won't work when peoples' health is at stake. There is just no way to totally eliminate poor quality work by the vendor willing to supply at the lowest price.

When peoples' lives are at stake, there should be no compromise.